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Our goal is to ensure British Columbia has clean renewable energy for generations to come

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BC HYDRO 2008 ANNUAL REPORT
REPORTING ON OUR TRIPLE BOTTOM LINE PERFORMANCE

BRITISH COLUMBIA

BC hydro
FOR GENERATIONS

BC HYDRO'S ANNUAL REPORT

This report covers our performance for the period April 1, 2007, through March 31, 2008, and integrates the Annual Report with our triple bottom line report on performance. Reporting on sustainability reflects BC Hydro's commitment to balance business across the three bottom lines: environmental, social and financial, now and well into the future.

The performance targets for fiscal 2008 referenced in this report were those set out in our February 2007 Service Plan, which provides a high-level, strategic look at our business and sets out the targets and measures by which our performance can be evaluated.

To meet the requirements for both annual and triple bottom line reporting, this report has been prepared in accordance with British Columbia's *Budget Transparency and Accountability Act*, Canadian generally accepted accounting principles (GAAP) and in compliance with the Global Reporting Initiative (GRI) new G3 Guidelines. In addition to the measures found in the Annual Report, a comprehensive list of performance data that supports BC Hydro's commitment to triple bottom line reporting is available in the GRI comparative index online at BC Hydro's website: http://www.bchydro.com/info/reports/reports853.html.

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JUL 18 2008

MESSAGE FROM THE CHAIR AND PRESIDENT AND CEO

The BC Hydro Annual Report was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act* and in compliance with the Global Reporting Initiative G3 Guidelines.

This report represents a balanced presentation of BC Hydro's economic, environmental and social performance for the fiscal year ended March 31, 2008. All significant decisions, events and identified risks as of May 31, 2008, have been considered in preparing this report.

The information was prepared in accordance with the B.C. Reporting Principles and represents a comprehensive picture of our performance in relation to our February 2007 Service Plan. The measures focus on aspects important to the company and are consistent with BC Hydro's values, purpose, goals and objectives.

The board and management are responsible for ensuring internal controls are in place to measure and report on the performance of the company in a timely fashion. This report contains estimates and interpretive information that represent the best judgment of management. Any significant limitations in the reliability of data are identified in the report.

Mossadiq S. Umedaly
Chair

Bob Elton
President and CEO

FOR GENERATIONS

BC Hydro is committed to achieving electricity self-sufficiency and reducing greenhouse gas emissions significantly. Our conservation initiatives, our commitment to seek out additional clean energy sources, and our existing clean hydroelectric generating facilities already make British Columbia a leader in generating sustainable electricity.

As set out in the government's BC Energy Plan: A Vision for Clean Energy Leadership, BC Hydro will meet 50 per cent of our incremental resource needs through conservation by 2020. We are also ensuring that all new electricity projects have zero net greenhouse gas emissions, and that clean or renewable electricity continues to account for at least 90 per cent of total generation.

In June 2008, we filed our Long-Term Acquisition Plan with the B.C. Utilities Commission (BCUC). It sets out our forecasted energy requirements over the next 10 years, and our plans to meet those requirements. It also proposes demand-side measures – from conservation programs and changes in the rate structures to new regulatory codes and standards – that are forecast to exceed the BC Energy Plan's 50 per cent conservation target.

To ensure that future generations have an adequate, reliable supply of clean energy, BC Hydro is undertaking a number of initiatives.

Conservation continues to be the foundation of our strategy. Power Smart will play a key role in our conservation efforts, as it has since we launched the program nearly 20 years ago. In fiscal 2008, for example, Power Smart programs produced new annual energy savings of 326 gigawatt hours. (GWh)

All British Columbians have a role to play in meeting the conservation challenge. In February 2008, BC Hydro filed with the BCUC a Residential Inclining Block Application, which is a two-step rate structure designed to encourage residential customers to conserve electricity. This rate would be revenue neutral to BC Hydro.

Renewed investment in our infrastructure is also a priority. Many of BC Hydro's power-generating facilities were built decades ago, and need refurbishment and expansion to continue providing reliable electricity to British Columbians. BC Hydro is investing significant funds – $3.4 billion over fiscal 2009 and 2010 alone – to address our aging infrastructure. We are also funding a number of projects on the transmission system – through BC Transmission Corporation – and on the distribution system.

BC Hydro is seeking additional supplies of clean power from Independent Power Producers. We have launched a Standing Offer Program for small-sized generation projects; are initiating a Clean Power Call for contracts up to 5,000 GWh of energy a year; and issued a Request for Expressions of Interest to identify bioenergy projects using wood waste and diseased timber.

In the BC Energy Plan, BC Hydro is directed to explore the potential Site C hydroelectric project on the Peace River and to consult with communities, First Nations and stakeholders. In fall 2007, we completed the Stage 1 report of the project, and followed up with extensive pre-consultation to determine how people want to be consulted and on what topics during the second stage, Project Definition Consultation.

BC Hydro, like all utilities across North America, is experiencing cost pressures driven by aging infrastructure, the high cost of new energy supplies, labour shortages and increasing environmental regulatory compliance requirements. To address these challenges, in February 2008,

BC Hydro filed a Revenue Requirements Application with the BCUC that seeks rate increases over two years across all rate classes.

We continue to make progress in many of our key strategic and operational areas. We achieved our financial targets and exceeded our customer satisfaction targets. We improved customer reliability for most of our customers who have been experiencing lowest reliability; improving system-wide reliability will be achieved mainly through the implementation of the Smart Meter Infrastructure project.

Our safety performance, in terms of accident frequency, was below plan and we have reassessed our overall approach to safety starting with recommendations provided by an international expert panel in its November 2006 report. Our strategy is to focus deliberately on the high risk hazards associated with our work, and to eliminate or control them by identifying and putting barriers in place to protect employees and make the workplace less dangerous. In addition, as we refurbish our aging assets or design new infrastructure, we will incorporate "safety by design" principles to make the long-term maintenance and operations inherently safer.

We are deeply saddened to report that two of our Power Line Technician employees, Dirk Rozenboom and Rob Lehmann, were killed in a helicopter crash in Cranbrook while conducting a transmission line patrol in May 2008. The pilot, and a pedestrian, were also killed. All of us at BC Hydro are very proud of Dirk and Rob, and the work and service they provided to the community.

Our commitment to Aboriginal relationship-building was recognized in February 2008 when BC Hydro became the first Canadian utility to be admitted to the Canadian Council of Aboriginal Business and its Progressive Aboriginal Relations Program. The program helps organizations enhance their relationships with Aboriginal communities, and measure and mark progress through an ISO-like certification and recognition process, which BC Hydro plans to undertake over the next year.

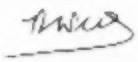
Earlier this year, BC Hydro became an official supporter of the Vancouver 2010 Olympic and Paralympic Winter Games. Our role is essential: to provide clean, reliable power to all the venues and related sites. It also provides us with an exciting opportunity to associate ourselves with the Olympic brand, giving us a powerful platform from which to promote conservation at the Games and across British Columbia through Power Smart.

The initiatives we are undertaking today and planning for in the coming years are critical to British Columbia achieving electricity self-sufficiency by 2016, and ensuring that future generations can enjoy the same benefits of low-cost, reliable power that we have enjoyed for decades.

Finally, on behalf of the board and all of us at BC Hydro, we would like to thank and pay tribute to former Chair Larry Bell for his many years of service with BC Hydro. Our entire organization and the Province of British Columbia were well served by his leadership, guidance and enthusiasm. We would also like to recognize BC Hydro's employees, whose dedication and commitment are responsible for our continued success.

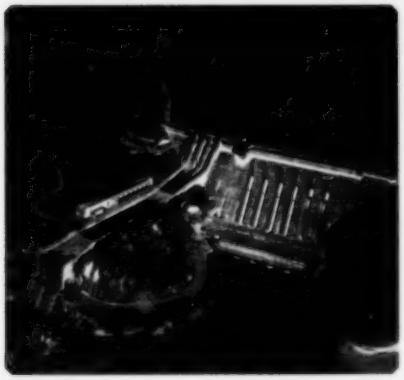
Sincerely,

Mossadiq S. Umedaly
Chair



Bob Elton
President and CEO

Business Overview



BC Hydro operates 41 dam sites (75 dams), 80 generating units at 30 hydroelectric facilities, and nine units at three thermal generating plants.

BC Hydro is a provincial Crown corporation and one of the largest electric utilities in Canada. Our mandate is to generate, purchase, distribute and sell electricity. We receive guidance from the provincial government through several policy instruments, including a Shareholder's Letter of Expectations and the 2002 and 2007 BC Energy Plans.

BC Hydro is regulated by the British Columbia Utilities Commission (BCUC). Under the *Utilities Commission Act*, the BCUC is responsible for ensuring that customers receive safe, reliable and non-discriminatory energy services at fair rates from the utilities it regulates, that shareholders of these utilities are afforded a reasonable opportunity to earn a fair return on their invested capital, and that the competitive interests of B.C. businesses are not frustrated.

OUR PURPOSE

BC Hydro's purpose is to provide "Reliable Power, at Low Cost, for Generations." This purpose provides the context for our business decisions:

For Generations confirms BC Hydro's commitment to sustainability in managing our business. This means making long-term decisions and, when necessary, balancing trade-offs along the environmental, social and financial bottom lines.

Reliable Power means that BC Hydro maintains sufficient energy supply and the capability to deliver it safely to customers when it is needed.

Low Cost means that our operations are at the forefront of business success. This is achieved by being fiscally prudent, and always considering environmental and social costs.

OUR SYSTEM

BC Hydro operates 41 dam sites (75 dams), 80 generating units at 30 hydroelectric facilities, and nine units at three thermal generating plants. Most are located well away from the province's major population centres.

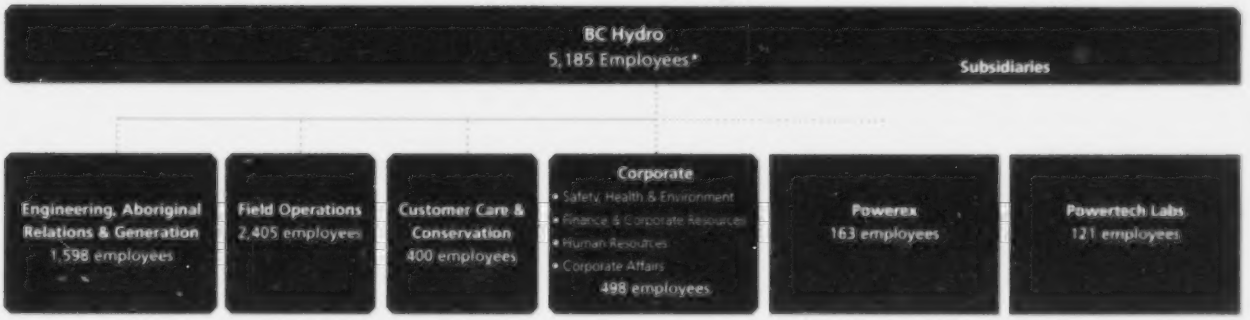
Our hydroelectric facilities are located mainly on the Peace and Columbia river systems and on the Pacific Coast. Combined, they provide between 43,000 and 54,000 gigawatt hours (GWh) of electricity annually, accounting for approximately 90 per cent of total generation. BC Hydro's thermal power plants contribute the remaining 10 per cent of generation. Together, our thermal and hydroelectric facilities have an installed capacity of approximately 11,300 megawatts (MW).

We deliver electricity to our customers through a network of more than 74,000 kilometres of transmission and distribution lines. Our distribution system includes 56,000 kilometres of distribution lines, 882,000 utility poles and 317,000 transformers.

BC Hydro also serves 17 communities – known as non-integrated areas – that are not linked to our transmission network. They are typically small, remote communities, served by local generating stations owned by BC Hydro, Independent Power Producers or the communities themselves.

ORGANIZATIONAL STRUCTURE

BC Hydro's organizational structure is designed to ensure we deliver on our five short-term priorities (see page 12) and to facilitate coordination among business functions. The structure includes operational business groups, a corporate function and two subsidiaries, Powerex and Powertech (see page 104 for more information on our subsidiaries). As of March 31, 2008, we had 5,185 employees (full-time count as 1; part-time count as 0.5).



* total number of employees as of March 31, 2008

Engineering, Aboriginal Relations and Generation manages and operates our dams and generation facilities, performs engineering for BC Hydro and British Columbia Transmission Corporation, and is responsible for establishing mutually beneficial relationships with Aboriginal people through negotiations, cross-cultural training, engagement and community involvement.

Field Operations ensures we can deliver energy safely and reliably to customers, including extension and connection services, and provides emergency response and restoration services. The group is also responsible for the company's vehicle fleet and material supply chain services.

Customer Care and Conservation is responsible for long-term planning and acquiring resources for our province's energy needs, and providing customer care services, as well as creating and implementing Power Smart programs.

Corporate groups have multiple responsibilities, including finance, regulatory affairs, risk management, information technology, legal, properties, safety, health, environment, communications, stakeholder engagement, public affairs, human resources and sustainability.

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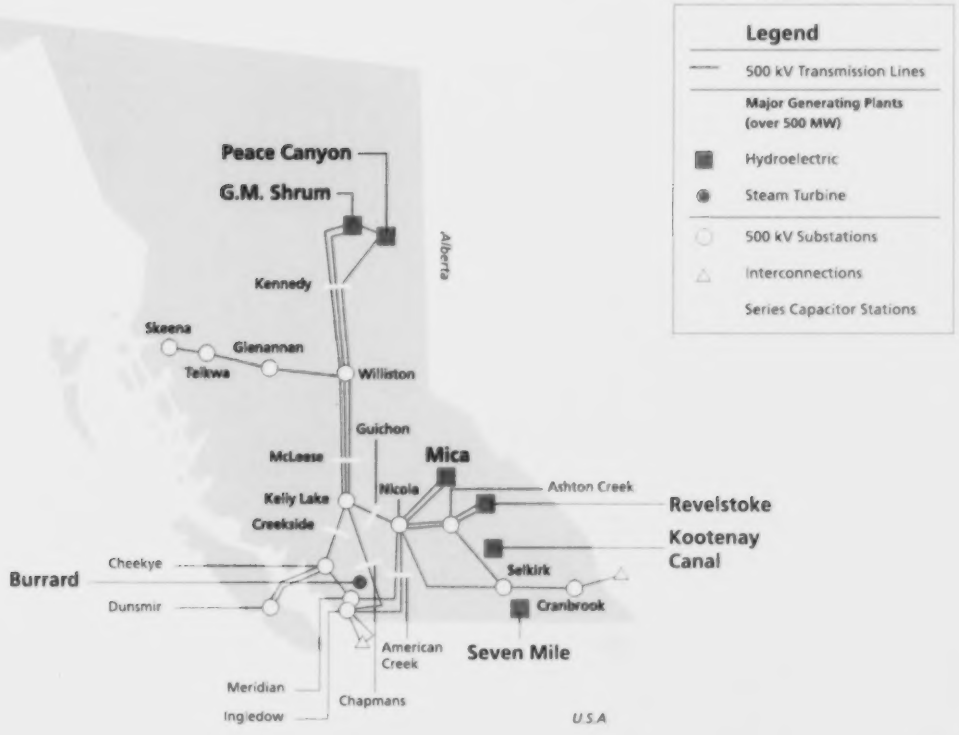

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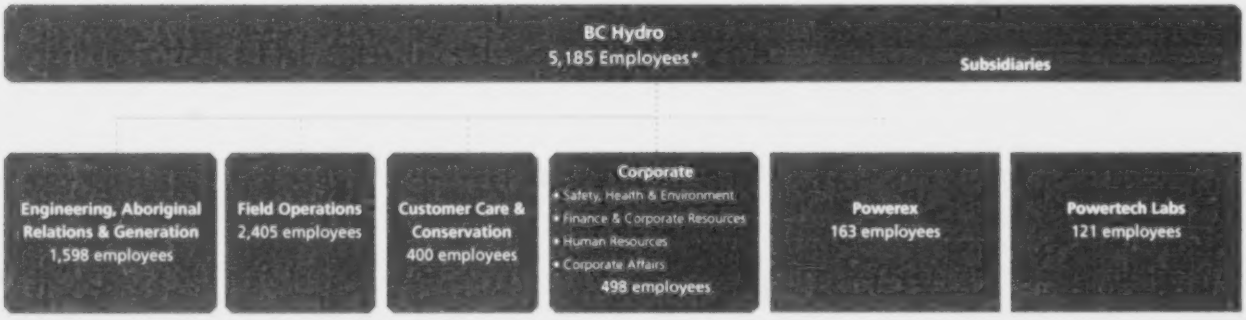

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Strategic Partners

BRITISH COLUMBIA TRANSMISSION CORPORATION

British Columbia Transmission Corporation (BCTC) is responsible for planning, operating and managing BC Hydro's 18,000-kilometre transmission system. BC Hydro owns the system assets (excluding Control Centres) and retains responsibility for funding transmission capital expenditures, and for First Nations and transmission property rights matters.

BCTC is responsible for obtaining the approval of the BCUC for:

The Transmission System Capital Plan
An Open Access Transmission Tariff

BCTC is a Crown corporation and regulated by the BCUC. For more information on BCTC, visit www.bctc.com/home.

ACCENTURE BUSINESS SERVICES OF BRITISH COLUMBIA

BC Hydro outsources many of its customer care, information technology, human resources, financial systems, purchasing, and building and office services to Accenture Business Services of British Columbia under a 10-year agreement effective April 1, 2003. BC Hydro is committed to outsource services of close to $1.5 billion in exchange for contractually committed savings of $250 million over the 10 years. Over the first five years of the agreement, BC Hydro has realized gross cumulative savings of approximately $101 million, slightly higher than the level expected at the start of the agreement.

INDEPENDENT POWER PRODUCERS

Each year, BC Hydro purchases electricity from Independent Power Producers (IPPs) to help meet the needs of our customers. We currently have 89 Electricity Purchase Agreements representing 14,860 GWh of energy purchases a year. Of these agreements, 44 are for projects under development, including one in a non-integrated area, and 45 are in operation, including three non-integrated area projects. In fiscal 2008, IPPs provided 7,765 GWh of energy to the BC Hydro system, which accounted for about 13 per cent of total domestic electricity requirements.

Legislation and Public Policy

LEGISLATION

Two key provincial legislative statutes enable BC Hydro's operations. Our mandate is provided for under the *Hydro and Power Authority Act*, which created BC Hydro and established our general powers and governance. The other legislation is the *Utilities Commission Act*, which created the BCUC and established the framework for regulation of public utilities.

The BCUC is an independent regulatory agency of the provincial government, operating under and administering the *Utilities Commission Act*. The BCUC's primary responsibility relative to our industry is the regulation of the energy utilities under its jurisdiction to ensure that the rates charged for energy are fair, just and reasonable, that the shareholders of utilities have a reasonable opportunity to earn a return on their invested capital, and that utility operations provide safe, adequate and secure service to customers.

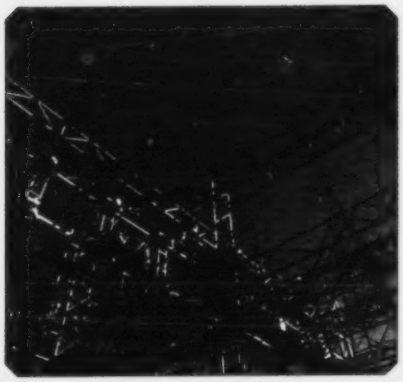
On May 1, 2008, Bill 15, *The Utilities Commission Amendment Act*, received Royal Assent. These amendments align the *Utilities Commission Act* with the BC Energy Plan objectives. The amendments require the BCUC to consider, among other objectives, the goals of reducing greenhouse gas emissions, pursuing energy conservation and efficiency, and producing and acquiring electricity from clean or renewable resources when it makes decisions about utility resource plans, projects and supply contracts. The amendments also legislate a requirement for BC Hydro to install smart meters, as prescribed by regulation, by the end of 2012, and implements several other BC Energy Plan policy actions.

BC Hydro's assets also come under the terms of the *BC Hydro Public Power Legacy and Heritage Contract Act*. This act ensures public ownership of BC Hydro's Heritage Resources, which includes BC Hydro's transmission and distribution systems, and all of BC Hydro's existing generation and storage assets, and enabled the establishment of the Heritage Contract. The act also includes any future increases to the capacity and energy capability of these facilities.

PUBLIC POLICY

BC Hydro is a provincial commercial Crown corporation and has a role in implementing provincial public policy. The BC Energy Plan provides policy direction and guidance for BC Hydro to produce and acquire power to achieve electricity self-sufficiency. BC Hydro's short-term priorities and long-term goals also align with the plan, which aims to meet the global challenge of ensuring a secure, reliable supply of affordable energy in an environmentally responsible way. Elements include requiring the elimination of or offsetting greenhouse gas emissions for all new thermal projects, making B.C. electricity self-sufficient by 2016, maximizing our conservation efforts to meet 50 per cent of our incremental resource needs by 2020, and ensuring the continued use of new clean or renewable electricity sources.

Performance Overview



BC Hydro uses a series of measures to guide business performance and progress.

We evaluate our performance with specific targets and measures, mapping the right indicators for each of the 15 long-term goals. This enables BC Hydro to modify short- and long-term plans at early stages, and ensure we are on the right track to meeting our goals.

This section reports on our short-term priorities and targets, in addition to our environment long-term goal, as outlined in the 2007/8 to 2009/10 Service Plan. For the strategies BC Hydro is undertaking to achieve our short-term priorities, see page 100 of this report. BC Hydro's 15 long-term goals are described on page 103 of this report. In February, we added a sixth short-term priority – Climate Change, Energy Conservation and Efficiency.

Short-Term Priorities	Description
Safety	To provide the safest work environment compared with the best performers in comparable industries.
Reliability (Supply)	To ensure all the infrastructure components are in place – and are operating optimally – to deliver energy to our customers. These components include generating facilities, the transmission network and the distribution network.
Reliability (Customer)	To provide best-in-class reliability by customer segment, and deliver an uninterrupted supply of electricity to our customers' satisfaction (recognizing that different types of customers have different expectations).
Financial Targets	To maintain low costs for electricity customers in B.C. over the long term, while consistently delivering 100 per cent of forecast net income.
Customer Satisfaction	To lead other companies in offering extraordinary value and service to our customers, including remote communities.
People	To be the top employer for generations and to use exceptional teamwork to engage all employees.

Although we have chosen to focus on five priorities, we continue to work on accomplishing projects, setting targets and achieving measures that relate to each of the 15 long-term goals as part of our business.

Definitions of the performance measures and disclosures of actual performance relative to BC Hydro's targets can be found throughout this section of the report.

How We Measure Our Performance

BC Hydro uses a series of measures to guide business performance and progress. Some of these measures are tracked monthly, while others are tracked quarterly, semi-annually and annually. BC Hydro continues to develop leading measures where practical to determine if progress on meeting our goals is on track and to identify where adjustments need to be made. Measures are results-based to provide a more accurate evaluation on our performance. We also participate in benchmarking studies to determine where improvement may be required.

BC Hydro's Short-Term Priorities

BC Hydro develops performance measures and targets to support our long-term goals and short-term priorities. These measures are included in BC Hydro's annual Service Plan, prepared for the provincial government, and progress towards meeting these targets is reported in this Annual Report each year. Performance measures and targets being reported for fiscal 2008 were included in the February 2007 Service Plan. Targets for fiscal 2009 and beyond are included in the fiscal 2009 Service Plan, which was released in February 2008.

A LOOK BACK ON OUR PERFORMANCE FOR FISCAL 2008

Short-Term Priorities	Measure	F2006 Actual	F2007 Actual	F2008 Target	F2008 Actual	F2008 Trend	F2009 Target	F2010 Target	F2011 Target
SAFETY (see page 15)	All Injury Frequency (Number of employee injury incidents per 200,000 hours worked)	2.6	2.4	1.9	2.8	▼	2.4	2.3	2.2
	Severity (Number of calendar days lost due to injury per 200,000 hours worked)	57	31	25	39	▼	25	23	20
RELIABILITY SUPPLY (see page 17)	Winter Generation Availability Factor[1] (Percentage of units in the system available to generate electricity [hours available for service/total hours] during the critical peaking period of November 15 to February 15)	96.77	96.24	96.20	94.90	▼	96.20	96.30	96.40
RELIABILITY CUSTOMER (see page 24)	ASAI[2] (%, excluding major events)	99.969	99.967	99.970	99.961	▼	N/R	N/R	N/R
	CAIDI (hours, excluding major events)	1.82	2.16	2.15	2.24	▼	2.15	2.15	2.15
	CEMI-4 (%, excluding major events)	14.00	7.30	10.00	8.56	▲	9.00	8.00	7.00
	CELID-6[2] (%, excluding major events)	17.00	13.54	16.00	15.04	▲	N/R	N/R	N/R
ENERGY CONSERVATION AND EFFICIENCY (see page 28)	Demand-Side Management (GWh/year, cumulative since F2002)	1,969	2,518	2,800	2,844	▲	N/R[3]	N/R	N/R
CUSTOMER SATISFACTION (see page 34)	CSAT Index (% of customers satisfied and very satisfied)								
	Scored 7 to 10	N/R	89[4]	80	90	▲	80	80	80
	Scored 8 to 10	71	76	N/R					
ENVIRONMENTAL IMPACTS (see page 41)	Clean Energy (%)	21	17	N/A[5]	N/A[5]		TBD	TBD	TBD
FINANCIAL (see page 31)	Net Income ($ in millions)	$266	$407	$365	$369	▲	$358	$402	$444
PEOPLE (see page 36)	Employee Engagement Index (Score out of five)	3.30	N/A	3.50	3.36	▼	3.55	3.60	3.65

▲ on track ▼ off track N/R – Not Reported N/A – Not Available TBD – To Be Determined

1. BC Hydro also entered into load curtailment agreements with large customers for the purpose of mitigating risk of capacity shortfall during the winter period due to delays in completion of new resources or outages extending into the winter period.
2. The ASAI and CELID-6 Reliability metrics will no longer be reported after fiscal 2008. The metric is being replaced by SAIFI, which is the average number of times that a customer experiences an outage during a year.
3. A new start year commenced in fiscal 2008 to align with targets outlined in the BC Energy Plan's 50 per cent energy conservation and efficiency target, and corresponds to a target of 10,000 GWh savings by 2020 that includes additional savings that will be derived from changes to building code standards.
4. BC Hydro introduced a new method for calculating the CSAT index in fiscal 2008. This figure represents only the Q4 fiscal 2007 CSAT results using the new methodology. Due to its short measurement duration, it may not necessarily be indicative of future performance.
5. The Clean Energy measurement will be re-established in accordance with the B.C. government's goal that 90 per cent of electricity generation in the province should be clean or renewable electricity, and that we meet 50 per cent of our incremental resource needs through conservation and efficiency by 2020.

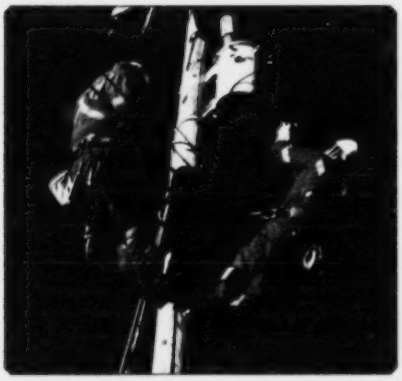
NEW SERVICE PLAN MEASURES FOR F2009

Short-Term Priorities	Measure	F2008 Target	F2008 Actual	F2009 Target	F2010 Target	F2011 Target
RELIABILITY Customer	SAIFI (frequency, excluding major events)	1.22	1.50	1.31	1.27	1.22
CLIMATE CHANGE AND ENERGY CONSERVATION & EFFICIENCY	Demand-Side Management (GWh/year, cumulative since F2008)	300	326	700	1,250	1,950
	Clean Energy	N/A	N/A	TBD	TBD	TBD
	Greenhouse Gas Emissions	N/A	N/A	TBD	TBD	TBD
	Environmental Impact	N/A	N/A	TBD	TBD	TBD
CUSTOMER SATISFACTION	Billing Accuracy (% of bills that are accurate)	98.2	98.5	98.2	98.2	98.2
	First Call Resolution (% of customer calls resolved first time)	N/A	71	TBD	TBD	TBD
FINANCIAL TARGETS						
Financial Efficiency	Return on Assets (%)	6.4	5.2	5.6	5.9	5.7
	Return on Regulatory Equity (%)	11.64	11.33	11.78	11.78	11.78
	EBIT Interest Coverage	1.60	1.49	1.41	1.40	1.39
	Debt to GAAP Equity (%)	80	80	80	80	80
Operational Efficiency	OMG&A (non fuel)/MWh Delivered[1] ($)	$11.32	$11.14	$12.27	$12.92	$13.05
	OMG&A (non fuel)/Transmission & Distribution Line km[1] ($)	$8,215	$8,057	$8,973	$9,532	$9,669
	OMG&A (non fuel)/Customer[1] ($)	$349	$344	$377	$396	$397
	Operating Cash Flow Post Dividend to Net Capital Expenditure (%)	35	47	40	38	37
	Transmission & Distribution Capital Expenditures/Transmission & Distribution Line km ($)	$8,628	$8,597	$13,711	$12,130	$12,950
	Total Factor Productivity (%)	N/A	N/A	1.0	1.0	1.0
PEOPLE	Vacancy Rate	10.2	8.7	9.9	9.6	9.3

N/A – Not Available TBD – To Be Determined

1. The F2008 target for the three Operational Efficiency O.M.G. & A. metrics noted above were restated after the release of BC Hydro's 2008/09 – 2010/11 Service Plan in February 2008 to include the operating costs of two subsidiaries, Powerex and Powertech. The Operational Efficiency metrics exclude DSM, Site C and other regulatory expenditures as they are not related to efficiency.

Safety



Safety is a priority at BC Hydro and we are focusing on identifying hazards and putting barriers in place to reduce risks.

BC Hydro recognizes that the operation of the electrical power system carries a degree of risk that must be managed actively to protect people, property and the environment. We have a comprehensive safety management system that includes employee involvement, communication, training, resources, policies and safety practice regulations.

We are committed to integrating safety in all we do. We want to provide the safest work environment for our employees, compared with the best performers in any industry. We also want to ensure that none of our employees will experience a serious safety injury.

EMPLOYEE SAFETY

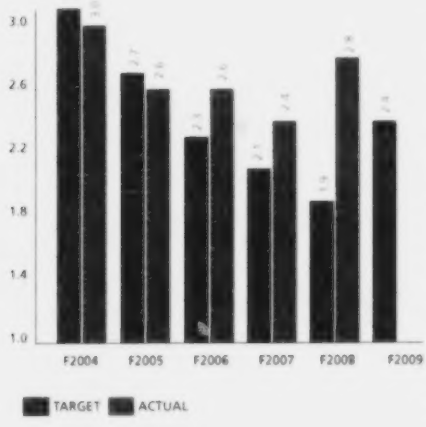
In fiscal 2008, greater emphasis was placed on identifying potentially serious hazards associated with generating stations and electrical facilities, and implementing effective protective barriers to reduce the risk of accidents.

As part of this continuing initiative, we are focusing on four priorities:

1. As system facilities are renewed and extended, we are applying safety-by-design principles based on those used at high performing industries around the world.
2. We are applying the principles of identifying hazards and placing barriers at the job planning stage, as well as for work designed and performed on a daily basis.
3. We are doing field level job observations to reinforce the implementation of effective barriers.
4. A new incident investigation system also looks for ways to significantly improve safety in operations.

ALL INJURY FREQUENCY

Number of employee injury incidents per 200,000 hours worked



The all injury frequency rate of 2.8 for fiscal 2008 surpassed the target of 1.9. The majority of the incidents were minor and did not represent a serious long-term risk to employees. Realizing that the emphasis on the permanent elimination or reduction of serious hazards will take significant effort and with a desire to have realistic objectives, the AIF target for fiscal 2009 has been increased slightly to 2.4, which will be reduced again in future years as the focus shifts to reducing less serious injuries.

While we recorded no fatal injuries in fiscal 2008, two Power Line Technicians – Dirk Rozenboom and Rob Lehmann – were tragically killed in May 2008 in a helicopter crash while conducting a transmission line patrol in Cranbrook. The pilot and a pedestrian were also killed in the accident. At the time of this writing, the cause of the accident was still under investigation.

All injury frequency (AIF) is a standard Canadian Electricity Association (CEA) measure and is defined as the total number of employee medical aids and disabling injuries occurring in the last 12 months per 200,000 hours worked. Medical aid injuries are those where a medical practitioner has rendered services beyond the level defined as "first aid" and the employee was not absent from work after the day of the injury. Disabling injuries are those where the employee is absent beyond the day of injury.

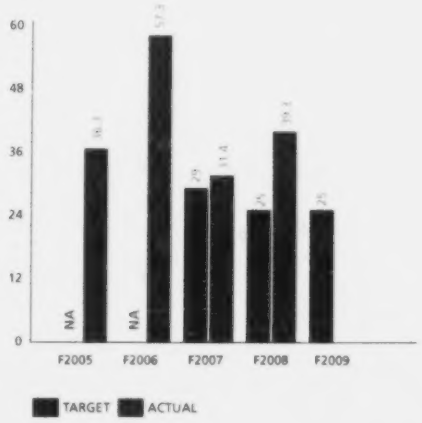
Although the aggressive target of 1.9 was not achievable, corporate performance at 2.8 remains excellent in comparison with CEA peers where the composite utility frequency rate is at 3.0. It should be noted that the overall CEA trend has sustained an 11 per cent annual reduction in AIF over the past eight years. While AIF has risen slightly this past fiscal year, there have been very few serious (life-threatening or permanently disabling) injury incidents in the period. The reduction or elimination of serious "high-risk" incidents remains the focus in our immediate safety strategy, and this accounts for a levelling in the short-term targets for AIF. We do remain committed to achieving our long-term goal of 0.5 AIF by 2025.

SEVERITY

We exceeded our target of 25, mainly as a result of a small number of injuries that contributed to a significant number of lost days to the total.
The continued emphasis on the elimination of high-risk hazards will lead directly to a reduced severity rate over time.

SEVERITY

Number of calendar days lost due to injury per 200,000 hours worked



Severity is also a CEA standardized measure and it is defined as the number of calendar days lost due to injury per 200,000 hours worked.

The severity position at year-end was 39.3. As noted in the AIF section, we reduced the number of serious incidents, but significant time loss still accrued as a result of several vehicle incidents and a small number of other events. Our fiscal 2009 Safety Plan is focused on enhancement of hazard identification and confirmation of barriers to control the hazards. This should have a positive impact on both incident volume and on reducing the amount of injury related time loss going forward. The CEA Composite for Severity holds at about the 16 level, and BC Hydro's Long-Term Severity Goal (<10 by 2025) remains in place to achieve closely comparative results.

Note: Both AIF and Severity metrics, as defined in the CEA Standard, are generally harmonized with the U.S. Occupational Safety and Health Administration Standards for safety statistics.

PUBLIC SAFETY

Public safety at our facilities and in the community is a priority for BC Hydro. Safety risks to the public exist due to the multiple uses of water for electricity generation, recreation and waterways, and from potential contact with transmission and distribution equipment located in communities.

To manage the public safety risk, BC Hydro relies on design, construction and operating standards and practices, signage, and consultation with other agencies and stakeholder groups. We also have emergency response plans to limit injury and loss of life and to restore electric service. At our generation facilities, we develop and implement public safety management plans to remove or reduce the risk of public injury.

Public awareness and education are significant components of our strategy. Last year, BC Hydro delivered safety education in schools throughout B.C. We developed new safety materials that are integrated with the B.C. curriculum for Grades 2 and 6. These resources were distributed to more than 2,000 schools with a potential reach of more than 60,000 students. We worked with the B.C. Fire Training Officers' Association to develop an enhanced electrical safety program for firefighters that will be delivered by Fire Training Officers as part of core safety training programs. As part of our Seven Steps to Electrical Safety Program, we delivered 378 presentations to more than 6,000 construction workers and emergency personnel.

As part of increasing public awareness about electrical hazards, BC Hydro developed five public service announcements on Global Television, warning of the potential dangers associated with outages, downed power lines, the underground distribution system, and trees growing into the power lines. We also participated in a task force with the Fire Chiefs' Association of B.C. to improve the coordinated response to downed power lines during extreme storm events.

Reliability

Many of BC Hydro's dams and power-generating facilities require upgrades and expansion if they are to continue providing reliable electricity.

BC Hydro is committed to maintaining a sufficient supply of electricity and delivering it safely to our customers.

Reliability of supply is achieved by ensuring our generation assets are maintained, the number of generating unit outages during the winter peak period are minimized and incremental supply through power acquisitions is in place as customers' requirements continue to grow. Reliability also means focusing on the needs of our customers so we can deliver expected customer service levels within a lowest life cycle cost framework.

WATER SUPPLY AND RESERVOIR STORAGE

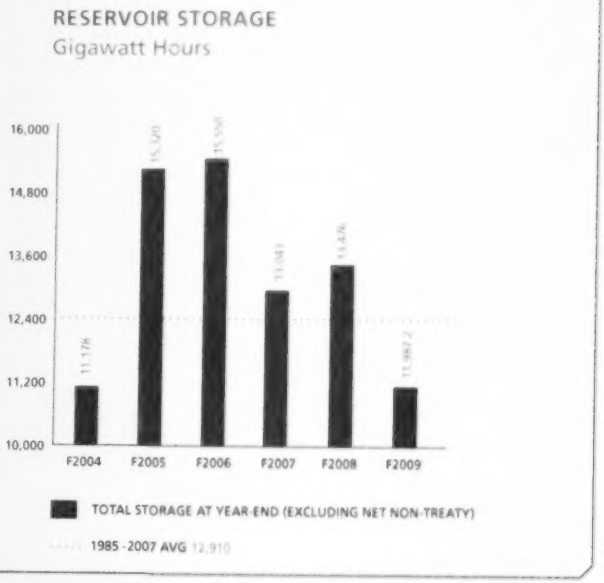
Generation from BC Hydro's predominantly hydroelectric system is dependent upon precipitation and reservoir storage operations. The water supply into our reservoirs was 114 per cent of average for fiscal 2008.

During much of the year, we operated the Peace River plants in preference to those on the Upper Columbia, due to the higher probability of spill at Williston Reservoir. The main exception was during the summer months, when preference was given to the Upper Columbia plants to support the level of Arrow Lakes Reservoir for recreation and fisheries.

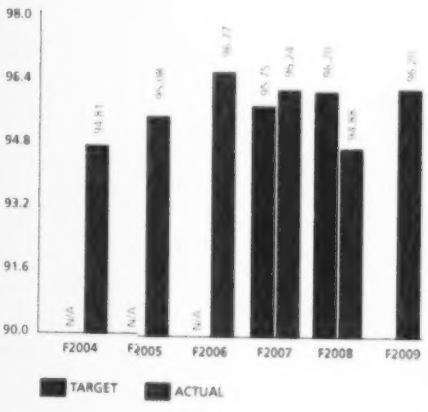
In the first quarter of fiscal 2008, energy sales and purchases were made to take advantage of market conditions. By the second quarter, however, persistent high inflows into the large basins resulted in high volumes of energy sales to avoid the need to spill. By the fourth quarter, Columbia River Treaty constraints restricted the seasonal volume available for release at Mica, resulting in BC Hydro purchasing about 1,500 GWh of energy to meet domestic load requirements.

Overall, BC Hydro was a net seller of 1,161 GWh primarily due to above average inflows. Total reservoir storage on March 31, 2008, was about 600 GWh above average levels and 400 GWh above the previous year's storage level, increasing the amount of energy available for future years. Based on snow pack conditions as of the time of this writing, system inflows for the 2008 water season (February – September 2008) are expected to be 102 per cent of average, and system storage is forecast to refill to an above-average level during the summer.

RESERVOIR STORAGE



WINTER GENERATION AVAILABILITY FACTOR



Winter generation availability is a percentage rate of hydroelectric units in the system available to generate electricity (hours available for service/total hours) during the critical peaking period of November 15 to February 15. This measure excludes generation facilities of 15 megawatts or less.

Winter availability last season totalled 94.88 per cent, which was short of our target of 96.20 per cent. Three significant forced outages contributed to the missed target: Unit 4 at Bridge River (50 MW) was out in November due to a circuit breaker failure, Unit 1 (55 MW) at Lake Buntzen went out in October due to a major failure of the turbine runner and did not return to service until April 5, and Unit 2 at Kootenay Canal (145 MW) went out in December due to an electrical fault in the stator, and returned to service February 10. Although the number of forced outages across the generating fleet has decreased, the increased duration of the outages may be a symptom of an aging asset base and a higher reliability risk.

BC Hydro has also entered into load curtailment agreements with large customers to mitigate the risk of capacity shortfall during the winter period due to delays in the completion of new resources or outages extending into the winter period.

CAPITAL PROJECTS

Many of BC Hydro's dams and power-generating facilities were built in the 1950s, 1960s and 1970s, and while there have been upgrades over the years, many require refurbishment and expansion if they are to continue providing British Columbia with reliable electricity. To address our aging infrastructure, BC Hydro has developed a Strategic Asset Management Plan, including facility Asset Plans that detail the overall investment strategy for each facility, taking into account the facility role, issues, performance targets, risks and growth opportunities.

Generator Stator Replacements

BC Hydro is replacing generator stators at Mica, G.M. Shrum and Peace Canyon generating stations to reduce the risk of forced outages and ensure reliability of supply.

At Mica, we have replaced two stators with the remaining two to be completed over the next two years for a total cost of $97 million. At Peace Canyon, we completed the second of four planned stator replacements in 2007, with all four scheduled for completion by fall 2009 at a cost of $86 million. The extended outages required for the work provide an opportunity for turbine overhauls and replacement of generator instrumentation. At G.M. Shrum, we are replacing three stators at a cost of $75 million. One has been completed, with the second one scheduled for completion in fall 2008 and the third by fall 2009. Refurbishment of a fourth stator is being considered to coincide with planned turbine replacement.

Coquitlam Dam

The existing Coquitlam Dam was originally completed in 1913. We are constructing a new dam downstream of the existing one to meet current seismic standards. It is scheduled for completion in summer 2008 and will cost $66 million.

Revelstoke Unit 5

The Revelstoke Generating Station was originally designed to be a six-unit generating station, but only four 500 MW units were installed during the original construction. Work to add a fifth 500 MW unit began in November 2007, with a scheduled in-service date of October 2010. As the project is in the early stages, a number of implementation and construction risks remain that could result in a one-year delay for completion. The project's estimated cost ranges from $280 million to $350 million.

Aberfeldie Redevelopment

We are building a new 24-megawatt plant to replace the old five MW plant, constructed in 1922. Last year, we completed the majority of powerhouse construction and the installation of equipment began this spring. The plant, estimated to cost $95 million, is scheduled to begin operating in fall 2008.

OTHER PROJECTS

BC Hydro is considering a number of other large capital projects and is at various stages of identifying and defining their scope, including costs and potential alternatives.

Campbell River Improvements

The John Hart facility, operating since 1947, needs significant capital investment to ensure reliable long-term generation and to mitigate earthquake risk and environmental risk to fish and fish habitat. BC Hydro is looking at replacing the existing six-unit, 126 megawatt generating station with a new three-unit, 135 megawatt powerhouse with integrated emergency bypass capability to minimize river flow disruption impacts to fish and fish habitat.

Strathcona is the upstream dam on the Campbell River and its reservoir provides the primary storage for the Campbell River system. The intake tower, power conduit, spillway piers and earthfill dam do not meet current seismic standards, and we are contemplating upgrades to improve public safety and system reliability, minimize environmental impacts, and address seismic concerns.

Ruskin Dam and Powerhouse Rehabilitation Projects

The upper portion of the Ruskin Dam, built in 1930, does not meet current seismic standards and is vulnerable to earthquakes. As an interim measure, we lowered Hayward Lake Reservoir, behind Ruskin Dam, by approximately two metres and anchored the most critical section of the upper dam. We are now considering dam rehabilitation work to further mitigate earthquake risk and protect public safety.

BC Hydro is undertaking a feasibility study to evaluate options for rehabilitating the Ruskin powerhouse, which was completed in 1930, to meet current seismic standards for earthquakes and to replace aging generating equipment.

G.M. Shrum Turbine Rehabilitation

Turbine runners for units one to five have required maintenance to address cracking problems since the units went into service in the late 1960s. We are considering replacement of the runners to improve reliability, decrease maintenance costs and improve operating efficiency.

Upper Columbia Capacity Additions at Mica and Revelstoke

The Revelstoke and Mica generating stations were designed as six-unit facilities; however, both had only four units installed, with two unit bays left empty at each station. To support system reliability, we are looking at adding two units at Mica and a sixth at Revelstoke (a fifth is currently being installed). Each additional unit provides approximately 500 megawatts of capacity.

Mica Gas-Insulated-Switchgear (GIS) and Transformer Replacement

The GIS carries electricity at 500,000 volts from the Mica underground powerhouse to the surface, where it transitions to transmission lines. We are investigating the replacement of the GIS to improve availability and reliability of the electricity supply, and to prevent SF_6 gas (a greenhouse gas) leakage. Due to limited physical space within the transformer gallery where the GIS is located, we are also considering replacing the transformers at the same time.

Lajoie Dam Seismic Upgrade

The Lajoie Dam is a rockfill structure completed in 1955. We completed a major refurbishment of the dam in 1972 and since then, periodic repairs have been required due to increased leakage as the dam settles. The dam does not meet current seismic standards, and we are considering an upgrade to ensure dam and public safety and to maintain reliability of supply.

SITE C

Site C is a potential third dam and hydroelectric generating station on the Peace River, and is one of many resource options that can help meet British Columbia's future electricity needs.

The BC Energy Plan called for BC Hydro and the Province to consult with First Nations, communities, and the Province of Alberta on the potential project. BC Hydro is taking a stage-by-stage approach to the evaluation of Site C.

In fall 2007, we completed the Stage 1 report of the project and commenced Stage 2 of the five-stage process. We conducted pre-consultation in December 2007 to February 2008 to determine how people want to be consulted and on what topics. Two rounds of public consultation on the potential project are planned in Stage 2, with the first round in May and June 2008, followed by a second round of consultation in the fall. In addition, Stage 2 involves extensive engineering, environmental and technical work to further define the project, to update decades-old studies, and to conduct new studies and technical work. At the end of Stage 2, BC Hydro will make a recommendation for government decision on whether to proceed to Stage 3 of the potential project, which would involve regulatory reviews.

CUSTOMER LOAD CURTAILMENT PROGRAM

To acquire additional short-term capacity, and provide more options and operating flexibility for meeting peak load demand, BC Hydro developed a Customer Load Curtailment Program that ran from November 2006 to February 2007. The program was expanded and relaunched in November 2007 as a long-term (up to six years) initiative. Ten customers responded to a Request for Proposals and signed agreements to curtail a total of 354.5 MW for periods of one to six years. Because the winter was relatively mild, no curtailments were needed in fiscal 2008. However, BC Hydro was able to avoid the cost of running an additional unit at Burrard knowing that it could curtail customers on short notice if needed.

CALLS FOR POWER

BC Hydro continues to work with Independent Power Producers to help shape our call processes. As directed by the BC Energy Plan, BC Hydro launched the Standing Offer Program for clean and renewable electricity projects with a capacity of 10 MW or less. We initiated the Bioenergy Call for power to utilize wood infected by the mountain pine beetle, as well as other wood fibre fuel sources. In addition, we have been engaging stakeholders on the largest call – the Clean Power Call – which targets up to 5,000 GWh a year of firm energy.

Clean Power Call

The Clean Power Call will target up to 5,000 GWh a year of clean energy from larger projects using proven technologies, such as hydro, wind, solar and geothermal energy, with extended in-service dates of 2016 or earlier. We have changed the call process from a Call for Tenders, as proposed in the draft term sheets, to a Request for Proposals (RFP) to accommodate negotiation on selected projects. The draft terms and process were discussed in a large stakeholder workshop in November 2007, followed by a comment period. More than 600 comments were received and incorporated into our revised terms. Call terms and processes are being designed with enough flexibility to allow larger, more complex projects to bid and accommodate in-service dates to 2016. The final terms for the Clean Power Call were released in June 2008.

Standing Offer Program

The BC Energy Plan directs BC Hydro to establish a standing offer for clean and renewable electricity projects with a capacity of 10 MW or less. The Standing Offer Program received BCUC approval in March 2008 and it was launched in April. The program offers a standard contract with fixed prices and a streamlined administrative process to give smaller scale projects the opportunity to contribute to B.C.'s supply of clean electricity.

Bioenergy Call

Guided by the BC Energy Plan and Bioenergy Strategy, BC Hydro is planning a two-phase Bioenergy Call for Power. Phase I is for projects that are immediately viable and do not need new tenure from the Ministry of Forests and Range. We issued the Phase I RFP February 6 and held a proponent information session on March 26 to receive feedback. Changes to the draft terms and conditions are reflected in the specimen Energy Purchase Agreement that was released in May 2008. The deadline for proposal submissions was scheduled for June 2008.

Phase II will be informed by the ongoing biomass inventory and the work associated with the forest tenure analysis and proposed legislative changes to the *Forest Act* and *Forest Range and Practices Act*. This phase is targeted to incorporate projects that have tenure, but were not ready or unable to participate in Phase I, as well as projects that require new tenure. We will build Phase II of the Bioenergy Call upon terms and conditions similar to those used to develop Phase I. The Phase II launch is planned for summer 2008.

TECHNOLOGY

Using advanced technology to help us to achieve our conservation goals and improve our system's performance is a focus of BC Hydro. Adapting to new technologies requires significant lead time, and a number of initiatives are at various stages of development and implementation.

- The Smart Grid Program incorporates advanced automation in sensing and monitoring equipment, information technology and communications to improve grid performance and support an array of services for customers.
- The Smart Metering & Infrastructure (SMI) Program is one building block of a Smart Grid and provides a foundation for fundamental changes to electricity delivery and usage. Smart meters can communicate with customers and BC Hydro offices at the same time, enabling better customer service and more timely information for customer inquiries. The SMI Program provides direct benefits to BC Hydro in the near term and lays an infrastructure to support future distribution system applications and technologies. In May 2008, legislation received Royal Assent that calls for the installation of smart meters, as prescribed by legislation, by the end of 2012. Starting in 2009, approximately 1.7 million smart meters and supporting infrastructure will be installed at every BC Hydro customer site, making immediate and future benefits possible for B.C.'s energy grid and its customers.
- The Hydrogen Assisted Renewable Power (HARP) project is a collaboration among BC Hydro, Sustainable Development Technology Canada, GE Canada and Powertech Labs to develop integrated energy storage and Smart Grid technologies to increase the utilization of renewable power and decrease the use of diesel fuel in remote communities. HARP technologies include an electrolyzer to create hydrogen from water using surplus renewable energy from an existing small hydro power station, compressed hydrogen storage tanks, vanadium redox batteries, a fuel cell generator, and a hydrogen-fuelled vehicle. The hydrogen technologies are integrated with existing hydroelectric and diesel generating facilities using an optimizing smart-grid control system. The first HARP project will be piloted in Bella Coola on the central coast in fiscal 2009.
- As part of the provincial government's initiative to demonstrate Plug-in Hybrid vehicles in B.C., we are converting two fleet Hybrid Electric Vehicles into Plug-in Hybrids. The objective is to understand the load impacts of Plug-in Hybrid vehicles on the distribution and transmission systems, charging patterns of users, vehicle performance and maintenance, communication between vehicles and grid, GHG reductions and, eventually, the energy storage and peak-shaving potential from the reverse flow of electricity from Vehicle-to-Grid. This will help us with the design of time-of-use rates to minimize the effects on the electricity infrastructure and moderate the need for new infrastructure. We will also be playing a key role in the government's effort by developing the standards for data collection, monitoring and management for the demonstration project, which includes the Ministry of Transportation, and the cities of Vancouver and Kelowna. Up to 15 Plug-in Hybrids are expected to be part of the demonstration project by the end of 2008.
- The Live Line Automation Study is a safety initiative looking into the work methods, tools and materials employed in Field Operations maintenance work. BC Hydro retained MacDonald, Dettwiler & Associates (MDA) to study the often hazardous tasks performed by power line technicians to develop and recommend opportunities for automation, likely leading to the development of new tools and work methods designed to improve safety, ergonomics and productivity of distribution line workers. MDA is a leading expert in robotics applications in a variety of industrial applications.

We continue to identify, monitor and evaluate new technologies for potential application within our lines of business and to drive the adoption of select technologies within the company. BC Hydro also continues to participate in research and development opportunities with Powertech and external organizations to explore innovative ways to manage issues, such as the life cycle of our assets, measuring and maintaining power quality, and technology initiatives such as those listed above.

PROCUREMENT ENHANCEMENT PROJECT

To simplify the process of purchasing goods and services, BC Hydro created a Procurement Enhancement Program. It has two components: Strategic Sourcing and Procure to Pay (P2P).

The focus of Strategic Sourcing is to improve our ability to identify how and from whom products and services are purchased, leverage the value of our annual expenditures, and improve the safety, service, quality and overall value of those purchases. In fiscal 2008, we implemented Strategic Sourcing for purchases in the distribution transformers, and wire and cable areas of our business, and expect to complete the implementation in pole-related wood products, and fuel and lubricants in early fiscal 2009.

The goal of P2P is to make the procurement of goods and services easier for our employees and suppliers. The project will increase BC Hydro's capacity to manage its significantly increased capital spending while implementing enhanced financial controls. The first two phases of P2P, assessment and design, were completed in the summer of 2007 and involved more than 120 employees throughout BC Hydro identifying how P2P could best deliver an improved procurement process. The implementation phase began in early 2008 with the completion of the project's design finalization. In fiscal 2009, the project will proceed into the build and deliver phase, which includes an extensive change management and training program to support employees and business groups in adapting to the organizational and process changes.

Reliability for the Customer

BENCHMARKING AND CUSTOMER RELIABILITY

BC Hydro participates in benchmarking studies to gauge our performance against leading North American utilities and to identify best practices and opportunities for continuous improvement. These studies have shown that BC Hydro is a low-cost, customer-focused service provider with many of the industry's best practices. In particular, our distribution wires business has been consistently ranked in the top quartile in cost performance.

However, our reliability performance does not compare favourably due to BC Hydro's vast service territory with difficult terrain and abundance of trees. We also have a higher proportion of overhead distribution system than other utilities, making it more susceptible to damage during wind and snowstorms.

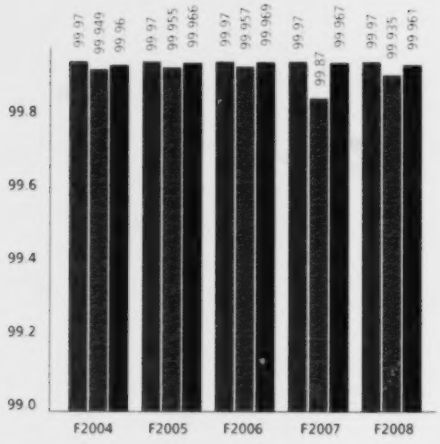
RELIABILITY AND STORMS

Windstorms pose significant challenges to BC Hydro because they can disrupt our ability to deliver electricity to our customers.

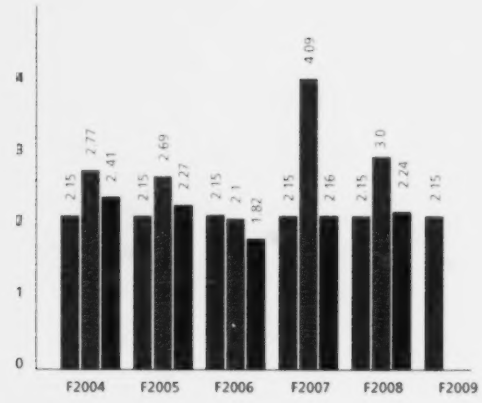
Compared with the winter of 2006-2007, which brought with it a number of severe storms in quick order, the winter of 2007-2008 was average in terms of severity and impact on our distribution system. Eight significant windstorms swept across our service territory, resulting in 3.6 million lost customer hours or 36 per cent of the annual total. One storm in particular, on November 12-13, cut a swath across the south coast and south interior, with winds exceeding 130 kilometres an hour in some areas, causing outages to more than 200,000 customers at its height and resulting in 2.2 million lost customer hours.

To improve the reliability of our distribution system, particularly in communities that are most vulnerable to storm-related outages, we are undertaking a System Resiliency Program. See page 26 for more details.

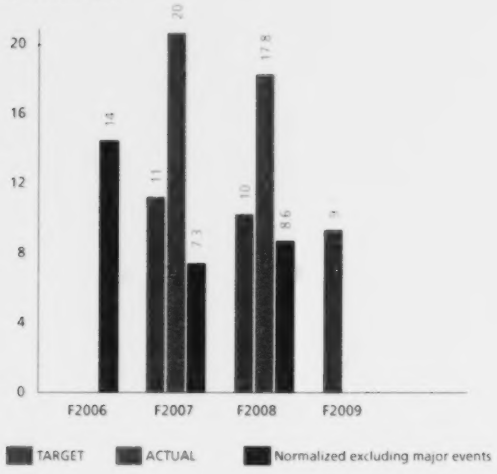
ASAI
(percentage)



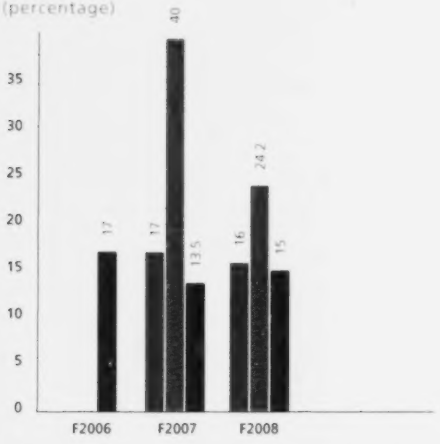
CAIDI
(hours)



CEMI-4
(percentage)



CELID-6
(percentage)



Targets based on normalized data, excluding major events

Reliability is defined as a combination of Average System Availability Index (ASAI) and Customer Average Interruption Duration Index (CAIDI). These indices are electric utility industry standards. Customers Experiencing Multiple Interrupts (CEMI) and Customers Experiencing Longest Interruption Duration (CELID) are new customer reliability measures that further support the reliability issue.

- ASAI refers to the percentage of time power is available.
- CAIDI refers to the average interruption hours per interrupted customer.
- CEMI-4 (customers experiencing multiple interruptions) refers to the percentage of customers experiencing four or more outage interruptions per year, excluding major events.
- CELID-6 - (customers experiencing longest interruption duration) refers to the percentage of customers experiencing longest interruption duration of six or more hours, excluding major events.

ASAI and CAIDI actual results, including major events, were better than Plan based on the five-year (fiscal 2003-07) average due to the absence of sustained storm activities that buffeted the distribution system a year earlier. In fiscal 2008, two weather events, namely the windstorm in the Lower Mainland, Vancouver Island and South Interior in mid-November and the snow and windstorm in the Fraser Valley and Vancouver Island in early December, caused significant power interruptions in these areas resulting in three million lost customer hours. However, excluding major events, ASAI and CAIDI normalized were worse than their respective annual targets due to longer outage durations. Normalized customer hours lost in fiscal 2008 were 17 per cent higher than prior years, with adverse weather and motor vehicle accidents being the leading causes of the increased hours lost.

CEMI-4 and CELID-6 are customer-focused reliability measures implemented in fiscal 2007 to provide an intuitive understanding of BC Hydro's reliability performance from the customer's perspective. Fiscal 2008 year-end CEMI-4 and CELID-6 were better than targets due to targeted maintenance spending on our aging distribution infrastructure, continued focus on improving performance of feeders that are below customer expectations and initiatives to streamline the trouble call response process. At year-end, CEMI-4 is 8.6 per cent which translates into 151,000 customers having experienced four or more outages in fiscal 2008. CELID-6 is 15 per cent, which means that 266,000 customers have had an outage lasting six or more hours in fiscal 2008. Including major events, CEMI-4 is 17.8 per cent or 315,000 customers have experienced four or more outages and CELID-6 is 24.2 per cent or 427,000 customers have had outages of six hours or longer duration.

BC Hydro was in the fourth quartile of Canadian and U.S. utilities for ASAI and CAIDI in fiscal 2007 due to the unprecedented impact of winter wind and snowstorms on the distribution system. Data for ASAI and CAIDI benchmark comparison in fiscal 2008 is not yet available as the study is just underway. Benchmark comparison for CEMI-4 and CELID-6 is not available as these measures are not yet widely used in the utility industry.

SYSTEM RESILIENCY IMPROVEMENTS

The winter of 2006-2007 was one of the most severe storm seasons faced by British Columbians. In total, 14.7 million of the 19.6 million customer-hours lost that season were storm-related. By comparison, the previous record for customer-hours lost was 7.4 million in fiscal 2004, and that was over a full year.

The program will strengthen up to 256 of the distribution circuits that are most vulnerable to storm impacts, resulting in a system that is more resilient to storms and more flexible when damaged by storms or other events.

In the first year of the program, we spent $31.4 million on system upgrades, primarily targeted at priority areas in the Lower Mainland, Fraser Valley and Vancouver Island. The program also included an additional $4.6 million of targeted vegetation management work to remove trees posing risk to distribution lines, and a $1.4 million investment in 12 portable back-up diesel generators to support community facilities during extended outages.

Following the storm season, we initiated a System Resiliency Program to improve the overall reliability of our distribution system, particularly in communities that are most vulnerable to storm-related outages.

The five-year program includes:

- targeted vegetation management to remove identified hazard trees;
- selective undergrounding of lines;
- use of Hendrix cables or partially insulated overhead conductors;
- selective use of supervisory control and automation;
- additional system operational capacity;
- system reconfigurations and upgrades to protection and control.

CUSTOMER GROWTH

NET CUSTOMER ADDITIONS BY SECTOR

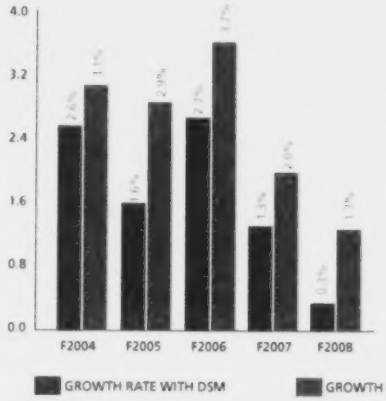
	F2005	F2006	F2007	F2008
Residential	22,259	27,096	28,741	28,332
Commercial and Light Industrial	2,246	2,451	3,306	1,791
Large Industrial	2	8	0	14

Residential additions are the number of households; commercial and light industrial, and large industrial additions are tallied by number of accounts. The customer count excludes inactive accounts, multi-meter groups except the master, accounts with all meters removed and unmetered service when the revenue category is the same as the metered service. Net additions account growth became stronger mainly due to the completion of apartments and townhouses in the beginning of fiscal 2008. Stronger economic growth translated into new business and new account growth in the commercial and light industrial sector. The lower growth for the commercial and light industrial sector was mainly due to the reclassification of some commercial rooming houses as residential. Large industrial growth is the result of a number of natural gas pumping stations coming on-line in fiscal 2008 due to the strong demand for natural gas.

BC Hydro continues to experience strong growth in this segment of our business, with more than 30,000 new customers added in fiscal 2008. The oil and gas industry is driving growth in northern parts of B.C., the south interior is experiencing growth in resort-style subdivisions and tourism, and Vancouver Island's growth is being driven by retirement and resort communities and vacation homes. The major construction boom continues in the Lower Mainland, driven by major infrastructure projects, such as the 2010 Olympic and Paralympic Winter Games venues, the Canada Line transit project and major highway improvements, as well as a surge in residential housing.

DEMAND GROWTH
(WITH AND WITHOUT DEMAND-SIDE MANAGEMENT)

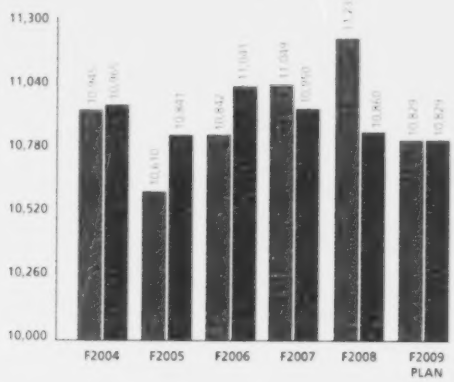
Percentage



The growth rate is calculated as the year-over-year change in domestic load. "Growth rate with Demand Side Management" (DSM) refers to incremental Power Smart impacts beyond implemented Power Smart programs. Despite steady growth in the residential and commercial sector, the overall growth rates declined in fiscal 2008 relative to fiscal 2007 due to a decline in sales in the Industrial sector.

CUSTOMER ELECTRICITY INTENSITY

Kilowatt hours/account/year



Residential electricity intensity is calculated by dividing consumption in the residential sector by the average number of residential accounts over the fiscal year.

Actual billed use per account for fiscal 2008 was 11,239 kWh/account, which was 222 kWh/account or 2.01 per cent above forecast, and 190 kWh/account or 1.72 per cent above the actual billed use per account in fiscal 2007. Use per account increased penetration levels of plug-in load such as computers and home entertainment equipment. One likely cause for the decline is DSM.

The winter of 2007-2008 was colder than normal and fiscal 2008 residential use rate was 2.01 per cent above plan on an actual basis. However, fiscal 2008 residential use rate was 1.43 per cent below plan on a weather normalized basis. Both variances are within the accepted industry standard of +/- 2.5 per cent.

The fiscal 2009 plan includes the incremental impact of new Power Smart programs.

REMOTE COMMUNITY ELECTRIFICATION

BC Hydro will provide remote communities with the opportunity to receive reliable and sustainable electrical services. In June 2007, the Remote Community Regulation was released by the provincial government, which provided BC Hydro with the mandate to implement the Remote Community Electrification Program to communities prescribed by the regulation. BC Hydro is also implementing the "Power Smart for Remote Communities" and "Emerging Alternative Energy" programs. These two programs will help BC Hydro meet the BC Energy Plan's policy action to pursue alternatives to reduce the amount of diesel used in remote communities. The Remote Community Electrification Program also creates an opportunity for BC Hydro to work with First Nations in remote areas of the province. BC Hydro has been negotiating with the federal department of Indian and Northern Affairs Canada to develop a long-term agreement regarding the transfer of existing funding for electricity on First Nations reserves.

Electricity Conservation and Efficiency

CONSERVATION CULTURE

BC Hydro's goal is to develop and foster a conservation culture in B.C. that leads to customers making a dramatic and permanent reduction in electricity intensity.

As directed in the BC Energy Plan, BC Hydro is focusing on meeting 50 per cent of our incremental resource needs through conservation and efficiency by 2020. In fact, our 2008 Long-Term Acquisition Plan proposes demand-side measures – from conservation programs and changes in rate structures to new regulatory codes and standards – that are forecast to exceed the BC Energy Plan's 50 per cent conservation target.

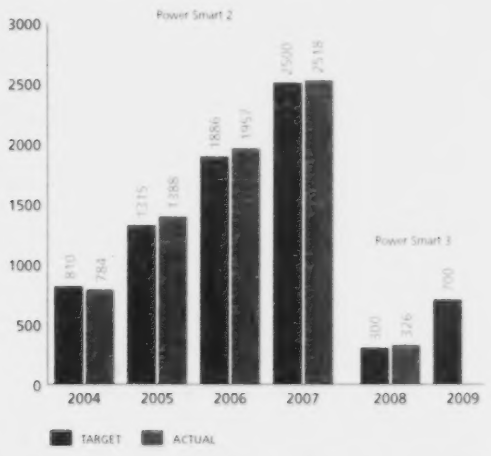
BC Hydro's traditional approach to demand-side management has succeeded in driving technological change. However, to accomplish our new vision, we must go farther and engage British Columbians so that efficiency and conservation are a way of life and a way of doing business. It must become something we do as consumers, businesses and communities and must become persistent and self-sustaining. A utility cannot do this alone. We are in a unique position to act as a catalyst for change, but we need communities to show their leadership and develop comprehensive and integrated sustainability plans that adopt policy changes needed to encourage the right choices. Together, we can launch concrete actions that not only drive resource savings, but also build the foundation for sustainable cities.

POWER SMART PLAN

BC Hydro is focusing on meeting at least 50 per cent of incremental resource needs through conservation and efficiency by 2020. Last year, BC Hydro developed a 20-year Demand-Side Management plan that will achieve energy savings directly through codes and standards, rate structures and programs. An integral part of the plan to meet our targets is through increasing public awareness, providing education and information on energy-efficient technologies and conservation actions, engaging communities and municipal leaders to include energy efficiency in their plans and investing in promoting innovative technologies to reduce our electricity consumption. At a minimum, the plan will meet the BC Energy Plan's conservation target.

Our fiscal 2008 performance exceeded target, with the strong performance of the Industrial and Residential sectors partly offset by lower GWh/year savings in the Commercial sector.

DEMAND-SIDE MANAGEMENT
Gigawatt hours/years (cumulative)



Demand-Side Management reflects the cumulative rate of annual electricity savings resulting from DSM activities, such as energy conservation and efficiency, and load displacement.

The target values provided for savings after fiscal 2007 are preliminary and are redefined as Power Smart 3 in order to align with the BC Hydro conservation target in the 2007 Energy Plan. They will be updated as part of BC Hydro's Long-Term Acquisition Plan filing in June 2008. As the business transitions to the new DSM plan starting in fiscal 2008, the savings after fiscal 2007 will need to be restated.

The 326 GWh/yr in fiscal 2008 refers to the difference between the cumulative electricity savings of 2,844 GWh/yr in F2008 and 2,518 GWh/yr in F2007.

POWER SMART LEADERSHIP

To help promote conservation, BC Hydro established Team Power Smart in 2007, enlisting a number of high-profile business, political, community and sports leaders who have roots in B.C. and share a passion for energy efficiency and conservation. These leaders are committed to making changes in their own lives that lead to energy conservation and efficiency, with the goal of encouraging British Columbians to participate in conservation activities.

B.C. residents are also being encouraged to join Team Power Smart and show their personal leadership by setting an energy reduction target online through www.bchydro.com or signing up for a free online conservation newsletter.

We are engaging municipalities and customers at the community level through local associations, environmental non-government organizations, service clubs and other key influencers across B.C. We are creating partnerships to assist in the delivery of small neighbourhood-based initiatives. In addition, Power Smart is involved with sustainable community pilot projects to support municipalities and developers in implementing community-wide energy strategies as part of their planning process.

In November 2007, the province and BC Hydro signed a new Public Sector Energy Conservation Agreement that focuses on reducing electricity consumption by 20 per cent by 2020 and expanding the use of alternative energy options across more than 6,500 public sector buildings in B.C.

BC Hydro is leading by example in its own facilities by taking steps to conserve energy in a cost-effective manner. We are promoting energy efficiency and conservation behaviours through employee-led volunteer initiatives designed to instil a conservation culture within the company. These activities have resulted in energy reductions in several of our Lower Mainland buildings. BC Hydro also carried out a number of energy efficiency projects primarily with respect to voltage. The fiscal 2008 projects delivered approximately 10 GWh/year of savings.

CONSERVATION RATE STRUCTURE

In February 2008, BC Hydro filed a Residential Inclining Block rate application with the BCUC. It is intended to encourage conservation among residential customers through a two-step inclining block rate structure. Implementation is targeted for October 1, 2008, subject to BCUC approval. A Transmission Service Rate Re-pricing application was also filed in February to re-price Industrial Tier 2 rates at a higher level.

CONSERVATION RESEARCH INITIATIVE

We completed the second year of the Conservation Research Initiative, a pilot program involving about 1,700 customers that is designed to help them conserve energy and use it more efficiently through the use of smart meters in their homes to track their electricity consumption. Preliminary results from the second year show that participants continue to realize significant overall energy reductions during peak hours.

CODES, STANDARDS AND TECHNOLOGY INNOVATION

BC Hydro and other companies have been working with the provincial government on the development of new amendments to the B.C. Building Code that will set minimum energy efficiency standards for new construction in homes and buildings.

We are also working actively with the provincial and federal governments and other utilities to advance minimum energy performance standards of certain products, such as televisions and digital video recorders.

BC Hydro is forming strategic relationships to advance technology innovation and market adoption. Last year, we undertook a number of energy savings demonstration projects, some of which are now being considered for potential Power Smart programs. We also launched the Power Smart Innovation Challenge, a competition encouraging students, staff and faculty from B.C.'s post-secondary institutions to identify innovative conservation solutions and ideas.

POWER SMART RESIDENTIAL PROGRAMS

Last year, BC Hydro launched the Power Smart Appliance Program, which provides mail-in rebates on Energy Star-labelled clothes washers, refrigerators and freezers.

The Energy Star Lighting Program offers manufacturer buy-downs of select Energy Star fixtures, resulting in significantly reduced retail prices and various in-store rebates.

BC Hydro is currently developing a program to improve energy efficiency in low-income households by addressing barriers that prevent these customers from general program participation.

The Power Smart New Home Program provides incentives and a Power Smart Gold or Silver label for builders who build to EnerGuide standards.

POWER SMART BUSINESS PROGRAMS

In coordination with the provincial and federal governments and industry associations, BC Hydro is undertaking a pilot project for energy performance labelling and benchmarking of buildings.

The Continuous Optimization Program, launched in March 2008, is designed to optimize energy use of building systems in a sustained manner. The program offers incentives, upgrades to select meters, an online connection to an Enterprise Energy Management software service provider and support to help customers get their building in good working order.

For large commercial, government and institutional customers, BC Hydro continues to offer the Power Smart Partners Program. Key components of the Program are energy management assessments, plans and support, energy manager funding, energy studies, project incentives, a demonstration project fund, workplace conservation awareness, and public and peer recognition.

For the industrial sector, the Power Smart Partners – Transmission program focused specifically on activities that allow customers to take advantage of the stepped rate structure. The Power Smart Partners – Distribution Program has also been updated to meet the specific needs of industrial customers under the distribution rate.

Our Power Smart Partners Program focuses on moving customers towards the development of a Sustainable Energy Management Program, a tool that helps customers implement behavioural, business and operational process improvements to achieve energy savings. It assists customers in implementing capital projects and provides funding for energy management assessments, energy managers and energy studies.

POWER SMART STUDENTS PROGRAMS

BC Hydro's Power Smart Students Program educates Tomorrow's Customers on the benefits of energy conservation and sustainability. Last year, the program reached more than 56,000 students in 45 school districts. A new program, Energy Detectives, was launched for Kindergarten to Grade 3 students. It features a storybook, *Smarty and the Energy Detectives: The Mysterious Equation,* containing conservation and electrical safety messages and meets Ministry of Education Prescribed Learning Outcomes. In addition, we piloted a fundraising initiative, Lights for Learning, in which students raised money for charities of their choice by selling compact fluorescent light bulbs (CFLs) provided by BC Hydro. We delivered more than 9,000 packages of CFLs and educational materials on their benefits to schools for the pilot.

OFF THE GRID

To help promote conservation among the youth, BC Hydro launched Off the Grid in 2007, a contest that challenged young filmmakers to put energy-saving ideas on tape and demonstrate why conserving electricity is a film-worthy subject. This province-wide contest attracted 65 entries, with nine finalists attending a three-day filmmaking camp at the Gulf Islands Film and TV School, where they produced four short films focusing on energy conservation. Off the Grid videos can be viewed at www.offthegridvideo.com.

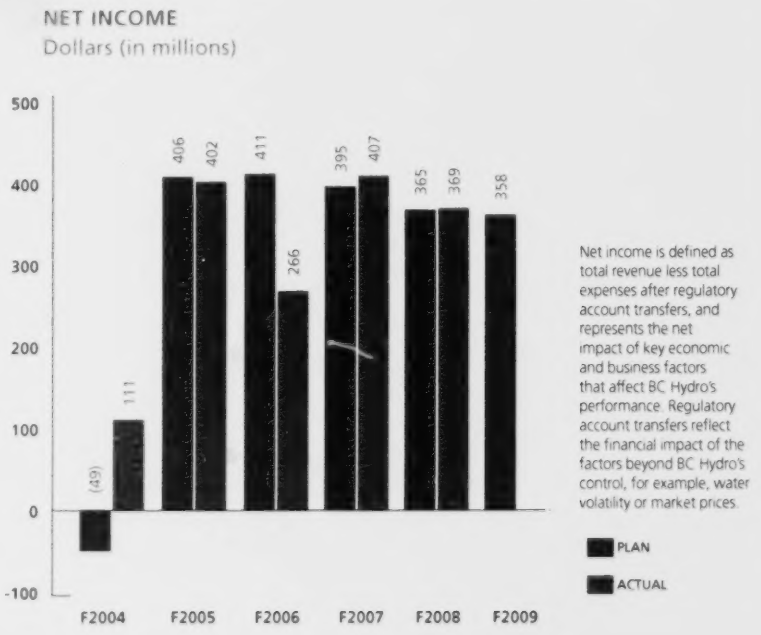
Financial Results

An increase in water inflows resulted in greater hydro generation, reducing the volume of energy purchases, which lowered the overall cost of energy.

For fiscal 2008, BC Hydro's financial results benefited from increased consumption, lower energy costs and lower amortization expense. Water inflows were 29 per cent higher than the prior year (and 14 per cent higher than average) resulting in greater hydro generation than in the prior year, reducing the volume of energy purchases acquired to meet domestic requirements, which lowered the overall cost of energy.

BC Hydro's allowed rate of return for fiscal 2008 was 12.05 per cent, as approved by the BCUC in its decision of February 20, 2007, which translates to net income of $369 million. The allowed return on equity has been calculated to equal, on a pre-income tax basis, that of the most comparable investor-owned utility.

NET INCOME



ENERGY TRADING ACTIVITIES

Trade revenues were $1,911 million, an increase of $504 million over last year's revenues of $1,406 million. The increase was due primarily to an increase in gas revenue as a result of an 80 per cent increase in gas sales volumes, which rose to 14,365 GWh from 7,964 GWh. Gas sales volumes rose because of increased trading activity, which was focused primarily on optimizing gas pipeline positions to realize locational spreads and optimizing gas storage agreements. In addition, electricity revenue increased largely as a result of a 12 per cent increase in electricity sales volumes to 37,450 GWh compared with 33,372 GWh the previous year. The increase in electricity sales volumes was primarily the result of continued growth in the business and to assist in system optimization due to the high risk of spill in the BC Hydro system from May through August.

TRADE VOLUME AND AVERAGE SALES PRICE

Electricity and Gas	F2004	F2005	F2006	F2007	F2008
Electricity Trade Sales Volume (GWh)	28,373	29,706	29,906	33,372	37,450
Average Sale Price - Electricity (Dollars/MWh)	$61	$63	$79	$64	$65
Gas Trade Sales Volume (GWh)	3,026	2,640	6,641	7,964	14,365
Average Sale Price - Gas (Dollars/MWh)	$54	$59	$76	$62	$58

REGULATORY

Fiscal 2008 was another year of significant regulatory activity for BC Hydro. The BCUC issued decisions on the 2007 Rate Design Application and several other applications, and BC Hydro submitted two major applications for review: the F2009/F2010 Revenue Requirements Application and the Residential Inclining Block Rate Application. Details of these and other filings are outlined in the following table:

APPLICATION/FILING	DETAILS	STATUS
2007 Rate Design Application	An oral public hearing was held on BC Hydro's application, which proposed to update rates, terms and conditions, set the foundation for future rate design proposals that would encourage conservation and efficiency, and rebalance rates between customer classes. It proposed a 1 per cent residential rate increase in 2008 and a 5 per cent decrease for small commercial rates to better match revenues with costs for each class. In its October 26 decision, the BCUC disagreed with the rebalancing proposal and directed BC Hydro to rebalance rates over three years, starting in Fiscal 2009, so that revenues from each customer class exactly match costs incurred to serve each class. This direction resulted in an 11 per cent increase to residential rates and a 19 per cent decrease to small commercial rates over the term. The BCUC also denied BC Hydro's proposals to phase out the E-Plus discounted rate for curtailable heating load and restructure the Large General Service rate, replacing its declining block rate with a flat rate. The majority of the other proposals for amended tariff terms and conditions and a simplified distribution extension policy were accepted.	Legislation, which came into effect on May 1, 2008, rescinded the BCUC's rate rebalancing decision.
Revelstoke 5 Project	In 2007, an application was filed with the BCUC for a Certificate of Public Convenience and Necessity for the addition of a fifth turbine estimated to cost between $280 million and $350 million.	Approved by the BCUC on July 12, 2007.

APPLICATION/FILING	DETAILS	STATUS
BC Hydro-Alcan 2007 Electricity Purchase Agreement	This contract, filed with the BCUC on September 5, replaced the 2006 agreement that was rejected by the BCUC. The 2007 agreement met the BCUC's concerns by providing lower prices, a longer term and an increase in capacity and scheduling services. An oral hearing was held in November to review the contract.	The BCUC accepted the 2007 EPA on January 29, 2008. Leave to appeal the BCUC's scoping decision to exclude consultation issues from the hearing was granted to the Carrier Sekani Tribal Council by the B.C. Court of Appeal on April 4, 2008.
Standing Offer Program	BC Hydro filed its application regarding the proposed terms and conditions of the program in December 2007. The program establishes a standing offer for power produced from clean electricity projects up to 10 megawatts, and is in accordance with Policy Action No. 11 of the BC Energy Plan.	BC Hydro successfully negotiated a settlement with its customer groups and stakeholders, the terms of which were approved by the BCUC in March 2008.
F2009/F2010 Revenue Requirements Application	On February 20, 2008, BC Hydro filed an application requesting rate increases of 6.56 per cent on April 1, 2008, and 8.21 per cent on April 1, 2009. The main cost drivers for these rate increases are the increasing cost of energy purchases to meet domestic needs, the increased level of capital expenditures, and the inflationary and growth pressures on operating costs. However, even with the proposed rate increases, BC Hydro's rates would still remain among the lowest in North America.	The BCUC approved the interim rate increase of 6.56 per cent effective April 1, and the proposed reduction of the deferral account rate rider from 2 per cent to 0.5 per cent. Review of this application began in March with BC Hydro responding to information requests.
Residential Inclining Block Rate Application	An application for a new rate structure for residential customers was filed on February 26, 2008. It proposes a two-step rate, with the Step 2 rate price higher for all energy consumption over 1,600 kWh per bi-monthly billing period. The Step 2 rate is intended to better reflect the long run cost of new energy supply and to provide an effective price signal to encourage energy conservation and efficiency. While the rate is designed to be revenue neutral to the residential rate class, individual customers will see bill impacts, which can be mitigated through consumption behaviour changes and participation in BC Hydro's Power Smart programs.	The review process for this application started in March with BC Hydro responding to information requests.
Transmission Service Rate Re-Pricing Application	This application filed on February 22, 2008 proposes to increase the Tier 2 rate for industrial customers from 5.40 cents/kWh to 7.36 cents/kWh to reflect newer information on BC Hydro's long-term opportunity cost of new supply. This would result in a slightly lower Tier 1 rate.	The BCUC approved this rate in June 2008.

Customer Satisfaction

Power Smart Certified Customer, Glenwood Farms, installed energy-efficient lights, resulting in $130,000 worth of annual electricity savings.

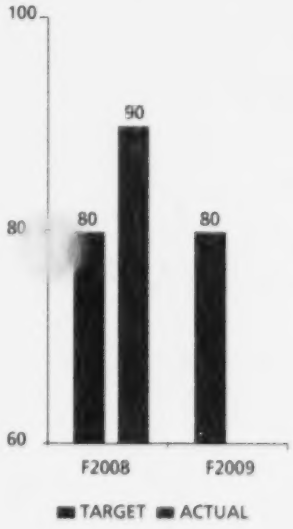
BC Hydro achieved a 90 per cent overall customer satisfaction rating last year, exceeding our target of 80 per cent. Satisfaction was highest among key accounts at 93 per cent, followed by residential at 89 per cent and small/medium business at 88 per cent. Our ability to provide reliable power remains a key strength, and is the highest rated driver, followed by commitment to customer service, efforts to communicate with customers and communities, value for money, and acting in the best interest of British Columbians.

Strong customer satisfaction results are attributable to a number of factors, including an increased focus on communication and customer engagement regarding conservation and outage management, improvements in call centre service, efforts to improve system resiliency, a less disruptive storm season and customers reporting they receive value for money for the rates they pay.

CUSTOMER SATISFACTION RESULTS

CUSTOMER SATISFACTION RATING

Percentage



Customer satisfaction ratings are based on the percentage of customers who indicate they are "very satisfied" or "satisfied" with BC Hydro on a four-point scale across an equally weighted index of five key drivers:

- providing reliable electricity;
- value for money;
- commitment to customer service;
- acting in the best interest of British Columbians;
- efforts to communicate with customers and communities.

A priority last year was to build upon our understanding of our customers' wants, needs and expectations. Best practice reviews and benchmarking were completed and used to inform BC Hydro's approach to outage communications. Research and service improvements focused on outage communications, conservation rates, customer self service and enhancement of BC Hydro's external website. BC Hydro also developed communication tools and training programs to help employees better understand how their actions create optimal customer value and satisfaction.

BC Hydro introduced a new method for calculating the CSAT index in fiscal 2008. Customer Satisfaction (CSAT) is defined as the percentage of customers who rated BC Hydro as "very satisfied" or "satisfied" on a four-point verbal scale across an equally weighted "index" of five key drivers of customer satisfaction. Customers are divided into three segments: residential, small/medium business and key accounts; all three segments are equally weighted and reported as a four-quarter rolling average using a continuous surveying methodology.

In fiscal 2007, BC Hydro benchmarked customer satisfaction levels against both electric utilities in North America and a group of non-electric B.C. companies with which our customers are familiar. Findings showed BC Hydro's satisfaction level compared favourably, with results in the top quartile.

OUTAGE COMMUNICATIONS INITIATIVE

BC Hydro's Outage Communications Initiative looks at ways to improve communications with our customers before, during and after an outage. This helps us improve customers' overall satisfaction. Although we have received high scores for overall customer satisfaction, scores tend to drop for communication around outages. Previous research and experience during winter storm seasons has shown that customers expect to receive useful, accurate information in a timely manner to help them make personal and business decisions to mitigate the impacts of an outage.

Several technology improvements were implemented that enable interactive and self-serve capabilities for customers to report and receive outage information. Customers now have the ability to provide outage information and to place trouble calls automatically by phone or through the website. Call capacity improvements were made along with contextual training for call centre agents on B.C.'s geographic regions, which improved the quality of information that customers received.

BC Hydro launched community awareness programs and completed 44 community workshops with community and emergency preparedness leaders. Successful efforts to raise customers' awareness and preparedness around storm and vegetation management included televised public service announcements, transit shelter advertisements and bill inserts. We also partnered with St. John Ambulance to support distribution of more than 20,000 emergency preparedness kits.

PERFORMANCE OVERVIEW

People

BC Hydro is a proud founding sponsor of the North American Indigenous Games

Photo courtesy of the Coast Host 2008 North American Indigenous Games

Like other businesses and utilities across North America, BC Hydro faces an aging workforce and a shrinking labour pool. Adding to this demographic challenge are the strong economies in British Columbia and neighbouring Alberta, and the ensuing increased competition for employees, combined with the high cost of living in some areas and the geographic remoteness of some of our facilities.

The company's current vacancy rate is in the range of 8 to 10 per cent, and about 30 per cent of the workforce is eligible for retirement within the next five years. Labour shortages in several areas already exist, including skilled workers – technicians and technologists, management and design specialists – operational and project managers, and qualified tradespeople – construction, power line technicians, cable splicers and electricians.

WORKFORCE

BC Hydro has developed several strategies to address workforce challenges, including:

- enhancing attraction through various outreach initiatives, such as Aboriginal education and employment opportunities, out-of-province job fairs, international recruitment and early replacements;
- expanding apprentice and trainee programs;
- conducting a review of the Total Rewards benefits program, including base pay, variable pay, benefits, pension and other related incentive programs;
- providing employees with opportunities to get involved in "once in a lifetime" opportunities, such as the 2010 Olympic and Paralympic Winter Games;
- supporting and encouraging a positive and diverse workplace;
- broadening qualifications and flexibility of hiring requirements by putting more focus on the candidate's potential rather than specific qualifications;
- working with unions and management on the Road to Retirement program that will provide incentive to employees to stay and work past their eligible retirement date.

BC Hydro is committed to leadership and skills development, with the focus on four specific programs: Leading for Results I, Leading for Results II, Supervising for Results, and Coaching and Engagement Skills for Managers. These programs have been successful in imparting skills and knowledge, building a leadership culture, and driving greater alignment and engagement among BC Hydro leaders and employees. In the last fiscal year, more than 700 employees participated in our leadership programs, bringing the total to more than 1,400 since the first program, Leading for Results I, was introduced in 2005.

To help develop employees for critical roles across the company, we also continue to focus on trainee programs, including Managers and Professionals in Development, Engineers in Training, Graduate Technologists in Training, Managers in Training, and our Apprenticeship and Trades Trainee programs.

VACANCY RATE AND NUMBER OF EMPLOYEES

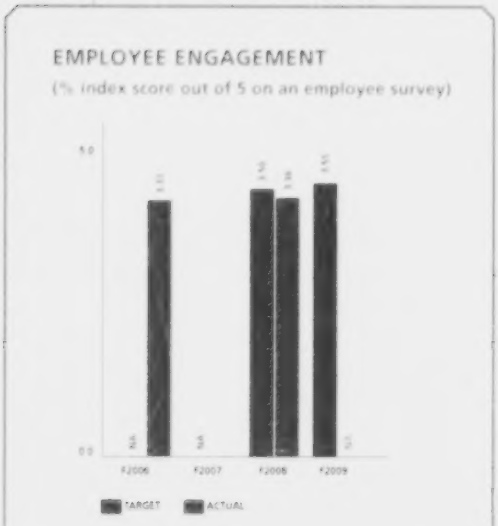
Vacancy Rate Percentage	F2006	F2007	F2008	F2009 PLAN
Actual	N/A	9.0%	8.7%	N/A
Target	N/A	N/A	10.2%	9.9%
Number of Employees	4,203	4,546	5,185	5,480

Vacancy Rate is a percentage of the number of vacancies in the process of being filled (replacement or additional positions actively being recruited for internally and externally) to the sum of BC Hydro's headcount plus the number of vacancies in progress. The year-end result is calculated by averaging the month-end rates at the end of each quarter.

Vacancy Rate is an indicator of an organization's people management such as its reputation as an employer, employee morale and turnover, competitiveness, and the effectiveness of recruitment processes. The vacancy rate provides a high level metric that is subject to considerable variation based on factors such as organizational growth, internal personnel movement, employee demographics and external market conditions. As such, it must be interpreted within the context of the timeframe that it is being measured.

The Number of Employees represents all active regular and temporary staff where full-time = 1 and part-time = .5. The organization's growth over the past several years can be attributed to maintaining and expanding capital infrastructure as well as undertaking new initiatives. BC Hydro balances its workforce by engaging external contractors and outsourced service providers to ensure workloads are safely and efficiently addressed.

EMPLOYEE ENGAGEMENT



In our Employee Survey, BC Hydro uses Employee Engagement as the measure to determine how our people are engaged (have the motivation, resources, alignment and capability) to do their work well. This measure is consistently recognized as a benchmark for Top Employers and will facilitate BC Hydro in reaching this goal.

The Employee Survey is now conducted in November, rather than February, to better align with other work demands. As a result, no survey was conducted in fiscal 2007 as there was insufficient time to take action to demonstrate meaningful results since the previous survey in February 2006.

The overall engagement score increased to 3.36 from 3.33. A notable improvement was the employee commitment sub index score, which increased significantly to 3.86 in fiscal 2008 from 3.69 in fiscal 2006. While the engagement increase falls short of the 3.50 target for fiscal 2008, the improvements in employee engagement and commitment are significant in light of the magnitude of organizational changes that have occurred since the last survey, such as the addition of 1,000 new employees, business group reorganization and new initiatives.

COMMUNITY INVESTMENT

We support community initiatives to help promote electricity conservation and enhance long-term relations with our customers and communities.

Last year, we funded more than 550 programs, investing $1,185,152 in donations and $1,300,000 in sponsorships in the following areas: environment and sustainability, youth and education, people and leadership, and community. In addition, we awarded more than $100,000 in scholarships and endowments to students who are leaders and role models in their schools and communities.

One of the initiatives we supported was Habitat for Humanity with a $90,000 contribution towards the construction of nine homes built to Power Smart Gold standards. This partnership ensured maximum energy efficiency in the new homes, and provided an opportunity for BC Hydro employees to volunteer on build days at each site. We also continued our support of Pitch-In B.C. by contributing $25,000 to its programs and participating in Pitch-In Week, which encourages community groups, schools and businesses to clean up their neighbourhoods. Pitch-In is also committed to administering a Power Smart educational program for independent school students to engage them in electricity conservation.

CORPORATE/REGIONAL DONATIONS

Dollars (in thousands)	F2004	F2005	F2006	F2007	F2008
Amount Allocated (Dollars, in thousands)	$1,000	$1,035	$1,005	$1,225	$1,185
Percentage Allocation					
Arts and Culture*	7	5	3	0*	0*
Education	2	14	10	17	15
Environment	10	4	5	6	9
United Way	17	17	14	6	6
Aboriginal	7	8	13	0*	0*
Regional	22	24	26	39	42
Scholarships	10	13	15	10	7
Employees' Community Services Fund	10	10	10	10	8
Community Investment*	15	7	5	11	13*

Corporate and Regional Donations are monetary grants, sponsorships or in-kind contributions provided by BC Hydro to registered charities or not-for-profit organizations to support cultural, social and economic well-being in communities around the province of British Columbia.

*Arts and Culture, and Aboriginal were considered a separate category in the past, but in fiscal 2007 these allocations were integrated into the main funding areas.

*For fiscal 2008, the people and leader funding and community initiative funding areas are reported together within Community Investment.

In fiscal 2007, BC Hydro introduced new criteria used to award Corporate and Regional donations. This has resulted in changes to the Arts and Culture, and Aboriginal categories, noted above. Preference continued to be given to initiatives that included Aboriginal, arts and culture elements that support youth up to 24 years of age, engage and support Aboriginal peoples, and involved communities where BC Hydro has facilities, operations or impacts and involve science, technology and engineering.

For fiscal 2009, community investment donations and sponsorships will have the same funding areas: community initiatives, youth and education, environment and sustainability, people and leadership. The preference categories will be similar to fiscal 2007; however, fiscal 2009 donation initiatives are planned to have a stronger customer focus that includes marketing and leveraging opportunities similar to sponsorships.

EMPLOYEES' AND RETIREES' SOCIAL COMMITMENT

The BC Hydro Employees' Community Services Fund (HYDRECS) is an employee and retiree-managed fund that supports Canadian charities in the health and social services sector. Employees and retirees made donations to approximately 600 charities through the fund. Total contributions made through the HYDRECS fund by employees and retirees for fiscal 2008 were $895,000. Additional support for local charities is provided through the organization's Community Growth and Relationship Funds.

The BC Hydro Power Pioneers Association, with 16 branches throughout British Columbia, maintains a membership of more than 2,000 retired BC Hydro employees and their spouses and represents more than 5,000 Hydro retirees. Their motto, Continuing a Lifetime of Service to our Communities, was demonstrated by more than 83,000 recorded hours of community service in the 2007 calendar year for many local charities and service clubs.

EMPLOYEE (HYDRECS) DONATIONS

Dollars (in thousands)	F2004	F2005	F2006	F2007	F2008
COPE, IBEW, M&P	$ 550	$ 539	$ 630	$ 582	$ 614
Fundraisers	32	30	50	23	21
BC Hydro Retirees	93	90	90	109	117
Corporate Donation	100	100	100	125	100
50/50 Draws	52	52	53	39	42
Total	**$ 827**	**$ 811**	**$ 923**	**$ 880**	**$ 895**

OUTREACH

Customer education is the primary focus of BC Hydro's Outreach activities. Last year, Outreach representatives attended more than 1,700 events and connected with more than 460,000 customers.

Our largest initiative was the Turn It Off Tour, a province-wide campaign to promote electricity conservation. From May to August, Outreach representatives attended community events, visited high traffic locations in community cruisers, conducted nearly 600 Energy IQ street interviews, visited more than 20,000 homes for the Neighbourhood Porch Light Program, educated children through 436 story times and conducted 335 business audits. Many of the Turn It Off initiatives continued through the year accompanied by additional campaigns, such as the Energy Star Lighting Program and the Emergency Preparedness Program for retailers as well as employee awareness events at commercial and industrial facilities.

FIRST NATIONS

BC Hydro continues to work closely with First Nations as part of our commitment to establish relationships built on mutual respect and trust.

In February, BC Hydro became the first utility in Canada to join the Canadian Council of Aboriginal Business and its Progressive Aboriginal Relations Program.

We are working with First Nations on new capital projects, including upgrades to or expansion of existing facilities, and addressing concerns with infrastructure constructed in the past. First Nations engagement on the Site C project has begun and capacity funding agreements are being negotiated to enhance First Nations' capacity to participate in the process. BC Hydro and the Province of British Columbia are close to a Final Agreement with the Kwadacha Nation to address the impacts of flooding from the Williston Reservoir in the Peace River Valley. BC Hydro is also working to meet the energy needs of First Nations in isolated areas through the Remote Community Electrification Project.

An Aboriginal Sector was established in 2007 in our Customer Care group to work with First Nations on energy efficiency in their communities. Through participation in the Aboriginal Power Smart Partner Program, customers may receive financial support to identify and implement energy efficiency projects.

BC Hydro established the Aboriginal Contract and Procurement Policy in early 2007 to increase the involvement of First Nations in economic opportunities at BC Hydro through preferential procurement practices. BC Hydro is also implementing benefit agreements associated with specific capital projects that will provide compensation for impacts, contract opportunities, Power Smart and education initiatives.

Under the Aboriginal Education and Employment Strategy, BC Hydro has made a 10-year commitment to double the number of Aboriginal employees. Last year, 28 new Aboriginal employees or trainees were added to our workforce.

As a founding sponsor, BC Hydro is providing support to the 2008 North American Indigenous Games, which will be hosted by the Cowichan Tribes in August. The games will see 20,000 participants and spectators, with 6,000 participants in 16 contemporary and traditional sports, 3,000 Indigenous people taking part in cultural components and 3,000 community volunteers providing support.

We have also partnered with the Minerva Foundation to develop a cross-cultural training project under the Combining Our Strength Initiative. The project focuses on sharing the history and culture of Aboriginal people from the perspective of Aboriginal women. By creating greater awareness of Aboriginal culture and issues, it will allow BC Hydro employees to be more respectful and responsive to First Nations' needs in meeting our organizational objectives.

COMMUNITY RELATIONS

Keeping the communities we serve informed of our activities is integral to our business.

Following the severe storm season of 2006-2007, BC Hydro representatives held more than 40 meetings across the province in communities hit the hardest. We provided background on the challenges we faced in the timely restoration of power and sought input on how to better serve their communities in times of difficulty.

Emergency planning meetings with communities ensures that BC Hydro and local government are prepared prior to emergency situations. Last year, we worked with local authorities prior to potential flood situations to ensure we knew the location of their critical infrastructure, such as pump houses, in the event that electricity needed to be turned off for safety considerations.

Before we embark on major capital investments in our aging infrastructure or perform system resiliency improvements, we ensure that those stakeholders and First Nations who may be affected are involved in the decision-making process. For example, on Vancouver Island, to help facilitate two large capital projects on the Campbell River system, we formed a liaison committee to bring together a diverse group of interested parties to provide input on both projects.

This culture carries through into other regions of the province with our engagement work on Revelstoke 5, Mica 5 and 6, Aberfeldie Redevelopment Project and water licence requirement activities underway in all regions.

We recognize the importance of our interaction with community leaders both individually and collectively. As such, our ongoing support of local government initiatives carries through to the Union of British Columbia Municipalities conference and five other regional municipal conferences held throughout the province each year. In addition, our annual Operations Update meetings provide opportunities to work with communities affected by our hydroelectric facilities.

STAKEHOLDERS

BC Hydro undertook an unprecedented level of engagement with stakeholders in 2007, highlighting our commitment to bring together people with diverse perspectives and expertise to inform key initiatives that support our goals and promote a conservation culture in B.C.

The Electricity Conservation and Efficiency Advisory Committee, representing leaders from throughout the province, marked its inaugural year with the release of an annual report. The committee was established in late 2006 to provide input and advice on BC Hydro's conservation and efficiency initiatives, as well as to generate new ideas to inspire a conservation culture in B.C. The committee's annual report stresses that BC Hydro will need to continue to be a catalyst for change in how British Columbians think about and use electricity, and it recommends a new framework to support BC Hydro's ambitious conservation goals, the role BC Hydro should play in the development of codes and standards, such as building codes, as well as the barriers that must be addressed when designing programs that will support conservation.

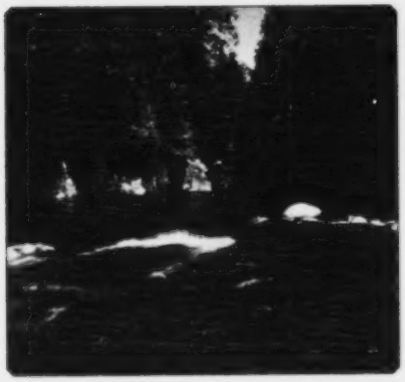
During the year, we also established a Rates Working Group – with broad representation from our customer groups, First Nations and other external organizations – to examine how different rate structures could drive conservation and efficiency. Feedback from the group was included in BC Hydro's Residential Inclining Block Application filed with the BCUC in February 2008.

The Conservation Potential Review (CPR) was also completed in 2007. The CPR study is the most comprehensive of its type carried out in North America and examined the benefits and feasibility of energy efficient technologies, alternative energies and fuel switching, as well as behaviour and lifestyle choices customers can make to demonstrate a personal commitment to conservation. It was conducted with information and advice provided by a panel of representatives from community groups and sectors across B.C.

In addition to conservation-related efforts, BC Hydro engaged with stakeholders on a number of other key initiatives. Approximately 1,000 stakeholders from all sectors participated in 21 information sessions and workshops related to BC Hydro's Calls for Power. In support of the 2008 Long-Term Acquisition Plan, stakeholders had the opportunity to provide input into the targeted Resource Options Update, which included updating the cost, potential and technology of commercial resource options.

PERFORMANCE OVERVIEW

Environment



Achieving no net incremental environmental impact by 2024 is BC Hydro's environmental goal.

BC Hydro is committed to producing, acquiring, delivering and consuming electricity in an environmentally, financially and socially responsible manner.

Achieving no net incremental environmental impact by 2024 is BC Hydro's environmental priority. Environmental impacts, such as the release of hazardous materials into the environment and harm to fish and wildlife and their habitat, are managed through our environmental management system and risk mitigation strategies. For emerging regulatory issues, notably climate change, BC Hydro mitigates the risk of increasing greenhouse gases through programs such as Power Smart and Resource Smart and through the acquisition of new energy from clean sources.

In fiscal 2008, key metrics for air, land and water were developed and tested at four pilot sites to report on our progress towards our goal of no net incremental environmental impact. Based on the results, the testing program was fine-tuned, and will be expanded to additional sites next year.

RISK MANAGEMENT FRAMEWORK

We created an Environmental Risk Management and Reporting Framework in fiscal 2007 that provides a consistent structured approach to Environmental Risk Assessment. To analyze risks and identify points where they can be controlled, the framework uses highly visual software to illustrate identified risks and risk management measures.

TRIPLE BOTTOM LINE

To achieve our purpose and long-term goals, BC Hydro is continuing to integrate financial, environmental, and social considerations (the triple bottom line) in how we plan and manage our business. This is included in our decision-making process across the company and at the board level.

Building on our experience in Water Use Planning and Integrated Electricity Planning, employees from across the company developed a framework and tools to help ensure more consistent and effective triple bottom line decision-making, whether it involves purchasing office supplies, disposing of waste, extending power lines, or deciding how best to achieve energy conservation. Introductory and advanced training courses were developed and delivered to approximately 200 employees over the past year.

In one application of the framework, safety and environmental factors played a key role in determining development options at the John Hart Generating Station near Campbell River.

While the initial focus was to ensure that environmental and social factors are consistently integrated in decision-making, the triple bottom line framework and tools will enable a better and more consistent approach to decision-making overall.

MANAGEMENT OF CONTAMINATED SYSTEMS

BC Hydro owns a large number of sites, both operating and dormant, that have been contaminated as a result of past practices. We continue to investigate these sites, prioritize them based on risk, and implement management strategies that consider triple bottom line principles. Solutions are cost-effective while protective of the environment.

ROCK BAY REMEDIATION PROJECT

The Rock Bay Remediation project is BC Hydro's most complex historic contaminated site, dating from the 1860s. A joint undertaking with Transport Canada to remediate the site, located in Victoria, began in 2004. Coal tar-contaminated soil was removed in two stages, as was some residual PCB-contaminated soil. Some of the soil remains in a secure, permitted storage facility on-site and will be treated and disposed of in the future.

In mid-2007, BC Hydro purchased the adjacent Supersave property as part of our efforts to address related coal tar contamination on nearby lands.

In late 2007 and early 2008, BC Hydro addressed the potential roof collapse of the former instrumentation building on site. The circa 1862 building is considered an important heritage asset to the local community. The exterior walls were supported and the old roof was removed and replaced with a temporary flat roof. Reuseable heritage components from the old roof were saved for reuse.

Discussions on next steps are underway with Transport Canada, adjacent property owners and the Ministry of Environment, and further remediation work is planned for 2008.

ENVIRONMENTAL MANAGEMENT SYSTEMS

As part of our commitment to continuous improvement of our Environmental Management System (EMS), BC Hydro is integrating EMS procedures and documentation across the company, streamlining environmental reporting and generally revising the EMS to reduce complexity and enhance consistency. A copy of BC Hydro's Environmental Responsibility Policy can be viewed at www.bchydro.com/policies/tbl/tbl27130.html

ENVIRONMENTAL INCIDENT REPORTING

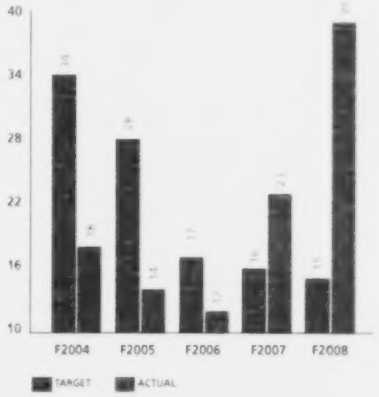
Environmental incidents are reported internally, communicated and assessed through the Environmental Incident Reporting (EIR) system, which provides us with timely and accurate information to manage incidents, identify trends and track actions, and helps us address underlying issues to prevent future incidents.

In fiscal 2008, 264 incidents were recorded in the EIR system, an increase of 51 over the previous year. The rise is due largely to an increased focus on reporting near misses, the implementation of water license requirements (water levels and flows) and bird fatalities. Of the 264 incidents, approximately 90 per cent were of minimal to low environmental consequence.

In addition, we use the Environmental Regulatory Compliance (ERC) measure to monitor environmental incidents. ERC incidents are a subset of those reported in the EIR system and in addition to being reportable, they are considered preventable. Of the 98 reportable incidents, 39 fell into the ERC category and exceeded our target of 15. Of the 39 incidents, 75 per cent were of minimal to low environmental consequence.

ENVIRONMENTAL REGULATORY COMPLIANCE

Number of incidents



The Environmental Regulatory Incidents measure is defined as the number of externally reportable, preventable environmental incidents.

COMPENSATION AND RESTORATION PROGRAMS

In partnership with the provincial Ministry of Environment and federal Department of Fisheries and Oceans, BC Hydro has established compensation programs to mitigate historic impacts on fish and wildlife resulting from the construction of our dams. The programs involve stakeholder and First Nations engagement, research projects and various compensation initiatives.

Columbia River Fish and Wildlife Compensation Program - Columbia Basin

In fiscal 2008, BC Hydro provided nearly $4.5 million to support 10 fisheries and 17 wildlife projects.

Bridge Coastal Fish and Wildlife Restoration Program

The program invested $1.7 million in 32 projects in southwest B.C., including Vancouver Island, in fiscal 2008.

Peace Williston Fish and Wildlife Compensation Program

More than $1.36 million was spent on 22 fish and 11 wildlife research and enhancement projects during fiscal 2008.

Species at Risk

BC Hydro is working on species at risk, including Columbia White Sturgeon, Vancouver Island Marmot, Mountain Caribou, Western Screech Owl, Northern Leopard Frog and Great Blue Herons. These efforts are delivered under the compensation programs, staff initiatives, and work being completed under Water Use Plans. Additionally, BC Hydro has enhanced its understanding of species at risk at its facilities and infrastructure through a new information sharing agreement with the B.C. Conservation Data Centre.

Air Management

CLIMATE CHANGE

The policy and regulatory framework governing greenhouse gas (GHG) emissions in B.C. and Canada are evolving. In particular, BC Hydro anticipates working within a regulatory framework that supports B.C.'s target of a 33 per cent reduction in GHG emissions by 2020, and is developing a strategy to manage GHG mitigation and climate change risks.

We are identifying measures to achieve carbon neutrality in corporate operations, including immediate opportunities to reduce GHG emissions from the vehicle fleet and buildings, and offsetting remaining emissions through the Pacific Carbon Trust starting in 2010.

GHG emissions are tracked and reported on a calendar year basis. Emissions are compiled in accordance with international best practices outlined in GHG reporting protocols from the World Resources Institute/World Business Council for Sustainable Development, the Climate Registry Global Reporting Initiative, Sustainability Reporting Guidelines, and the International Organization for Standardization. The table on the next page provides a summary of direct and indirect GHG emissions from BC Hydro's operations from 2003 to 2007.

Due to a higher water supply in 2007 and lower operation of thermal generating facilities, direct GHG emissions were lower than in 2006. Indirect GHG emissions from Independent Power Producers were higher than in 2006, when an extended plant shutdown resulted in lower emissions.

GREENHOUSE GAS EMISSIONS

Source	GHG Emissions by Calendar Year (kt CO2e)				
	2003	2004	2005	2006	2007
Scope 1 Direct Emissions					
Stationary combustion (electricity generation)	272	450	282	575	291
Stationary combustion (space heating)	3	3	3	3	3
Mobile combustion (fleet vehicles)	18	16	17	17	18
Fugitive emissions (SF^6 releases)	7	11	9	11	4
Total Scope 1 Direct Emissions	**299**	**480**	**311**	**606**	**317**
Scope 2 Energy Indirect Emissions					
Stationary combustion (electricity and steam consumed by BC Hydro)	3	4	4	5	4
Total Scope 2 Energy Indirect Emissions	**3**	**4**	**4**	**5**	**4**
Scope 3 Other Indirect Emissions					
Stationary combustion (electricity purchased from Independent Power Producers)	908	955	1,065	752	1,078
Mobile combustion (business use of personal vehicles)	1	1	1	1	1
Total Scope 3 Other Indirect Emissions	**909**	**956**	**1,066**	**753**	**1,079**

Notes:

- Greenhouse gas (GHG) emissions are reported in carbon dioxide equivalent metric kilotonnes (kt CO2e).
- Direct and energy indirect GHG emissions are reported for facilities that are under BC Hydro's operational control.
- GHG emissions associated with corporate operations of wholly owned subsidiaries Powerex and Powertech are included.
- GHG emissions due to electricity imports are not included.
- Fugitive SF_6 emissions from equipment controlled by the BC Transmission Corporation are not included.
- Historical GHG emissions have been re-estimated since the release of the 2007 Annual Report and GRI Comparative Index due to changes in inventory scope, improvements in data collection and updates to emission factors.

RECYCLING AND WASTE MANAGEMENT

In fiscal 2008, 6,816 tonnes of non-hazardous materials, such as scrap metals, wood and paper, were diverted from landfills. This is an increase of 51 per cent from the previous year.

The largest factor contributing to this increase is scrap metal, which went from 3,025 tonnes to 4,959 tonnes. The result is a landfill diversion rate of 77 per cent, equalling the fiscal 2007 rate.

RECOVERY OF SOLID WASTE

Tonnes	F2004	F2005	F2006	F2007	F2008
Paper	311	201	254	215	152.8
Cardboard	65	32	14	5.4	43.7
Scrap metal	1,207	2,054	2,222	3,025	4,959
Wood poles	560.4	906	972	699	828.6
Toner cartridges	0.74	0.8	0.8	0.4	6.3
Fluorescent tubes	4.5	7.5	5.2	4.4	4.8
Dry cell batteries	0.86	1.8	1.7	2.2	1.9
Ceramic insulators	522	619	712	500	702
Food organics	45.3	46	N/R	N/R	N/R
Landscape organics	6	6	N/R	N/R	N/R
E-Resources	65.6	56.0	23.5	73.0	117.2
Silica gel	0	3.6	5.1	2.2	0.3
Total Resources Recovered	**2,788**	**3,934**	**4,205**	**4,527**	**6,816**

Some data estimated. NR means "not reported."

MANAGING POLYCHLORINATED BIPHENYLS (PCBs)

To maintain the reliability of the electrical distribution system, BC Hydro continuously upgrades its network of transformers as load increases or units fail. This process reduces the number of older units that could contain PCB-contaminated oil.

We have completed an extensive ground-level transformer sampling program aimed at finding units that would require phasing out under forthcoming federal PCB regulations. Nearly 24,000 transformers were inspected or sampled. As a result, BC Hydro has embarked on an aggressive PCB padmount transformer phase-out program which, by the end of 2014, will see to the replacement of approximately 1,000 units containing PCB-contaminated oil exceeding the regulatory threshold of 50 mg/kg.

FLEET VEHICLE EMISSIONS REDUCTIONS

BC Hydro is continuing to introduce new vehicle and driver-related initiatives to ensure we will comply with the provincial government's policy on carbon neutrality and the reduction of greenhouse gas (GHG) emissions.

Our fleet now includes 45 hybrid sedans and 44 hybrid SUVs, and the life cycles of heavy trucks and cranes has been reduced from 15 years to 12 to ensure older vehicles are replaced sooner with new, cleaner diesel particulate filter technology. We are conducting a biodiesel pilot on eight of our bucket trucks in the Lower Mainland, with plans to expand the pilot to heavy trucks. Through Powertech, we are developing and testing hydrogen and compressed natural gas infrastructure, and the conversion of vehicles to run on hydrogen.

Other planned initiatives include quarterly reporting of emissions compared against a 2007 baseline, a pilot program to convert two hybrids to new plug-in-hybrid-electric technology, the introduction of a driver training program on eco-friendly driving habits for all BC Hydro vehicle operators and a review of our fleet environmental management practices by the E3 Fraser Basin Council.

Water Management

WATER USE PLANNING

To date, BC Hydro has developed 23 Water Use Plans for BC Hydro's hydroelectric facilities, and 20 of these plans have been approved by the Comptroller of Water Rights.

BC Hydro began its Water Use Planning process to engage public stakeholders, fisheries agencies, First Nations, and the provincial government in reviewing the operation of our facilities and making recommendations for optimizing associated economic, social, and environmental benefits.

A Water Use Plan contains three components: operational changes, monitoring studies, and requirements around feasibility studies or physical works. The operational changes, monitoring studies, and physical works are implemented following instructions from the Comptroller of Rights.

RESOURCE SMART

The Resource Smart Program provides additional electricity to the BC Hydro system by upgrading existing generating facilities with generally low or no incremental environmental impact. Since its inception in the late 1980s, this program has added almost 1,300 GWh of annual production, enough to power 130,000 homes.

Among the Resource Smart projects underway is the upgrade to the Revelstoke Generating Station. We are adding a fifth generating unit that will yield approximately 500 MW of additional generating capacity and 130 GWh of annual electricity production. In addition, we are redeveloping and expanding some of our current facilities, such as Aberfeldie, and contemplating redevelopment of John Hart and Ruskin.

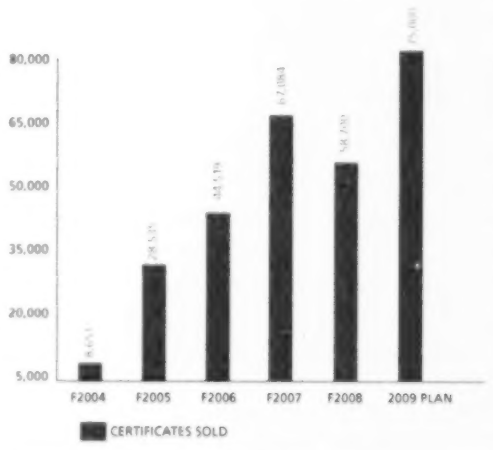
These potential, complex large-scale resource projects require long lead times to plan and develop. In addition, certain consultation and provincial and federal regulatory approvals are required, which would involve a significant level of First Nations, community and stakeholder engagement, as well as technical study and environmental review.

Other Energy-Related Initiatives

GREEN POWER CERTIFICATES

Helping our customers use energy in a sustainable manner is important to BC Hydro. One of the ways we do this is through the Green Power Certificate Program, which started in fall 2002. Each certificate represents the green attributes and emissions reductions from one megawatt hour of Eco-Logo Certified green power generation.

GREEN POWER CERTIFICATES



Green Power Certificates (GPCs) are offered to BC Hydro's institutional, commercial and industrial customers.

During fiscal 2008, BC Hydro decided to halt new GPC sales while an internal task team concluded a complete review of the program. Changes in the regulatory and legal framework and new policies under the 2007 BC Energy Plan created the need for this review. However, BC Hydro will still honour existing contracts and commitments until their expiry date.

CLEAN ENERGY RESULTS

The BC Energy Plan directs BC Hydro to ensure that clean or renewable electricity generation continues to account for at least 90 per cent of total generation, placing the province among the top jurisdictions in the world. The provincial government will issue guidelines to define what sources qualify as clean or renewable, and will provide additional policy guidance and directions, as needed, to ensure B.C. continues to meet this standard.

Statement on Corporate Governance

BC Hydro's governance framework is regularly reviewed to ensure it meets the ongoing business needs while being consistent with government's guiding principles.

Government has established guiding principles on corporate governance for its Crown agencies that sets out roles, responsibilities and accountabilities. A Shareholder's Letter of Expectations describes the relationship between government and BC Hydro on issues of mandate, performance expectations, public policy and strategic priorities. The letter is reviewed annually, updated as required and signed by the Chair of the Board of Directors on behalf of BC Hydro and by the Minister responsible for BC Hydro as government's representative. See page 105 for an overview of BC Hydro's alignment with the letter.

BC Hydro's current governance framework was adopted in 1998 and is regularly reviewed to ensure its various components meet the corporation's ongoing business needs from a governance perspective while being consistent with government's guiding principles on Crown agency corporate governance.

GOVERNANCE

Board Operations

Board and committee meetings are scheduled together on a quarterly basis. Time is also allotted each quarter for continuing education and these tutorials provide Directors with an opportunity to discuss strategy, a complex business issue or a specific aspect of the corporation's operations. Through its standing committees, the board has been kept informed of business issues during the past year, with continued emphasis on operational and financial risk.

As with any business there are times when special board meetings are required outside the regular meeting schedule and a number of additional meetings were required last year to address certain time-sensitive business issues.

Strategy Formulation

The BC Energy Plan sets out a direction towards self-sufficiency and actions towards developing solutions to climate change. During the year, board and management took part in a series of discussions regarding Energy Plan implementation.

To assist future board reporting on Energy Plan implementation progress, a new board committee was struck. The purpose of the new Conservation Committee, which meets quarterly, is to assist the board by monitoring and supporting the implementation of an energy conservation strategy as described within Energy Plan. The committee supports conservation initiatives, both inside and external to BC Hydro, and ensures a process is in place to track progress against the goal of a 50 per cent energy reduction by 2016.

At its annual retreat in September 2007, the board discussed the various challenges affecting BC Hydro's ability to implement key aspects of Energy Plan as well as future decisions that will come before the board. The retreat, which took place in Victoria, provided an opportunity for board and management to meet informally with local leaders, stakeholders, customers, First Nations and employees at a community reception held in the First Peoples Gallery of the Royal British Columbia Museum. While in Victoria, Directors also toured the Dockside Green demonstration project, which integrates various technologies including sewage treatment, energy controls for building performance, water conservation, biomass gasification and self generation.

Environmental Oversight

The Board of Directors expects assurance that environmental compliance processes are in place and that any deviation is identified in a timely way and reported to the Audit and Risk Management Committee, the board committee assigned with this responsibility.

An environmental session is built into the board's annual meeting calendar. At last year's session, management introduced new performance measures proposed to guide the corporation towards attaining its long-term environmental goal of no net incremental environmental impact. The session also examined how the environment features in BC Hydro's business decisions and through a panel discussion the board gained an excellent perspective on operational issues that arise during implementation of environmental strategies. An interactive segment with external environmental experts and university students completed the day's activities.

BOARD ORIENTATION AND ONGOING EDUCATION

In addition to quarterly tutorials and other business-specific educational sessions scheduled during the year, a formalized orientation program for new Directors has been established as well as policy for ongoing Director professional development.

BOARD RENEWAL

With the former Chair's retirement (Larry Bell), one resignation (Jack Weisgerber) and two appointments in late 2007 (Mossadiq Umedaly and Tracey McVicar), one of the first priorities of the newly appointed Chair, Mossadiq Umedaly, was to engage in Board renewal while assessing the overall competencies of the Board. This exercise was conducted with the assistance of the Corporate Governance Committee Chair and the Corporate Secretary. As a result of this activity and the Board's rotation plan, two Directors stepped down (Stephen Bellringer and Elmer Derrick) and six new Directors were appointed (Kim Baird, James Brown, Peter Busby, Jonathan Drance, Peter Powell and Donald Triggs.)

GOVERNANCE AND DISCLOSURE GUIDELINES FOR BRITISH COLUMBIA PUBLIC SECTOR BOARDS

Best Practice Guidelines on Governance and Disclosure were issued by government in 2005. BC Hydro's response to the 12 disclosure requirements is posted on our website at www.bchydro.com/policies/openness/openness26867.html and updated annually.

Terms of reference for the board and its committees, the Chair, the Chief Executive Officer and the Corporate Secretary together with related processes have been disclosed as well as conduct expectations, Director biographies, the number of board and committee meetings held during the year and Director attendance records.

CONTINUOUS IMPROVEMENT

Subscribing to a principle of continuous improvement, board performance is evaluated annually to assure that the Board of Directors performs its due diligence and policy oversight role in the most effective manner.

With the benefit of ongoing examination, awareness of best practices and benchmarking of other organizations, Directors are assured that BC Hydro's governance framework is appropriate. The board also understands that while process and structure drive good governance, success is only assured when the appropriate behaviours, attitudes and leadership are demonstrated at all levels of the organization.

COMMITTEES OF THE BOARD OF DIRECTORS

Committees of the Board of Directors of BC Hydro are composed entirely of independent Directors.

The Peace River/Williston Reservoir Advisory Committee is composed of community members.

The Board of Directors of BC Hydro's wholly owned subsidiary, Powerex Corp., has also appointed an Audit and Risk Management Committee composed of independent Directors.

BOARD AND COMMITTEE MEETINGS HELD FROM APRIL 1, 2007 – MARCH 31, 2008

BC Hydro and Subsidiaries

The number of board and committee meetings in fiscal 2008 is set out in BC Hydro's corporate governance disclosure at **www.bchydro.com/policies/openness/openness26867.html**.

Directors, Officers and Executive BC Hydro

FROM APRIL 1, 2007, TO MARCH 31, 2008.

BOARD OF DIRECTORS

Mossadiq Umedaly, Chair (Appointed December 13, 2007)
Larry Bell, Chair (Resigned December 13, 2007)
Stephen Bellringer
Wanda Costuros
Elmer Derrick
Brenda Eaton
Tracey McVicar (Appointed December 21, 2007)
Nancy Olewiler
Walter Saponja
Jack Weisgerber (Resigned November 1, 2007)

Newly appointed in fiscal 2009:

Kim Baird (April 10)
Jamie Brown (June 6)
Peter Busby (April 10)
Jonathan Drance (May 8)
Peter Powell (May 8)
Donald Triggs (June 6)

OFFICERS AND SENIOR MANAGEMENT

Bob Elton, President and CEO
Ray Aldeguer, Senior Vice President, Corporate Resources and General Counsel
Teresa Conway, President and CEO, Powerex
Alister Cowan, Executive Vice-President and CFO
Chris O'Riley, Senior Vice-President, Engineering, Aboriginal Relations and Generation
Gary Rodford, Senior Vice-President, Field Operations
Bev Van Ruyven, Executive Vice-President, Customer Care and Conservation
Ray Stewart, Chief Safety, Health and Environment Officer
Barbara Meens Thistle, Chief Human Resources Officer
David Wong, Acting Chief Accounting Officer
Susan Yurkovich, Senior Vice-President, Corporate Affairs
Myra Watson, Corporate Secretary

Committees of the Board of Directors

EXECUTIVE

Mossadiq Umedaly, Chair (Appointed December 13, 2007)
Larry Bell, Chair (Resigned December 13, 2007)
Wanda Costuros
Jack Weisgerber (Resigned November 1, 2007)

This committee meets only in special circumstances. It has the full powers of the board to act in situations when, for timing reasons, a board meeting cannot be scheduled.

AUDIT AND RISK MANAGEMENT

Wanda Costuros, Chair
Brenda Eaton
Nancy Olewiler
Walter Saponja

This committee assists the board in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, the system of corporate controls, governance of the corporation's pension plans and various facets of risk management.

CORPORATE GOVERNANCE

Brenda Eaton, Chair
Stephen Bellringer
Wanda Costuros
Elmer Derrick

This committee assists the board by ensuring that BC Hydro develops and implements an effective approach to corporate governance. This enables the business and affairs of the corporation to be carried out, directed and managed with the objective of enhancing shareholder value.

HUMAN RESOURCES

Nancy Olewiler, Chair
Stephen Bellringer
Elmer Derrick
Jack Weisgerber (Resigned November 1, 2007)

This committee assists the board in fulfilling its obligations relating to senior management, human resource, compensation and safety issues.

ADVISORY COMMITTEE – PEACE RIVER/WILLISTON RESERVOIR

Jack Weisgerber, Chair
Lori Lynn Ackerman, Fort St. John
Don Bourassa, Dawson Creek
Rick Hopkins, Fort St. John
Gwen Johansson, Hudson's Hope
Terry Johnston, Taylor
Kevin Neary, Mackenzie
Chief Johnny Pierre, Tsay Keh Dene
Leigh Summer, Hudson's Hope
Ron Terlesky, Mackenzie
Donny Van Somer, Kwadacha

The board appoints Advisory Committees from time to time. The Peace River/Williston Reservoir Advisory Committee provides advice and facilitates two-way communications between the Peace/Williston community and BC Hydro. Committee membership is composed of community leaders, providing equitable representation from geographical and special interest groups within the region. Committee members, including the Chair, are appointed by BC Hydro's board.

Footnotes

COMMITTEES OF THE BOARD OF DIRECTORS

Committees of the Board of Directors of BC Hydro are composed entirely of Directors who are independent of management. The Board of Directors of BC Hydro's wholly owned subsidiary, Powerex Corp., has also appointed an Audit and Risk Management Committee composed of independent Directors.

Board and committee meetings held from April 1, 2007, to March 31, 2008.

BC HYDRO AND SUBSIDIARIES

The number of board and committee meetings in fiscal 2008 are set out in BC Hydro's corporate governance disclosure at www.bchydro.com/policies/openness/openness26881.html.

Subsidiaries

POWEREX CORP.

BOARD OF DIRECTORS
Wanda Costuros, Chair
Elmer Derrick
Brenda Eaton
Bob Elton
Bob Fairweather
Nancy Olewiler
Peter Powell
Walter Saponjaa

OFFICERS
Wanda Costuros, Chair
Teresa Conway, Chief Executive Officer
Michael Standbrook, Acting Vice President, Finance and Chief Financial Officer – (Appointed August 2, 2007)
Myra Watson, Secretary
Diana Seehagen, Assistant Secretary

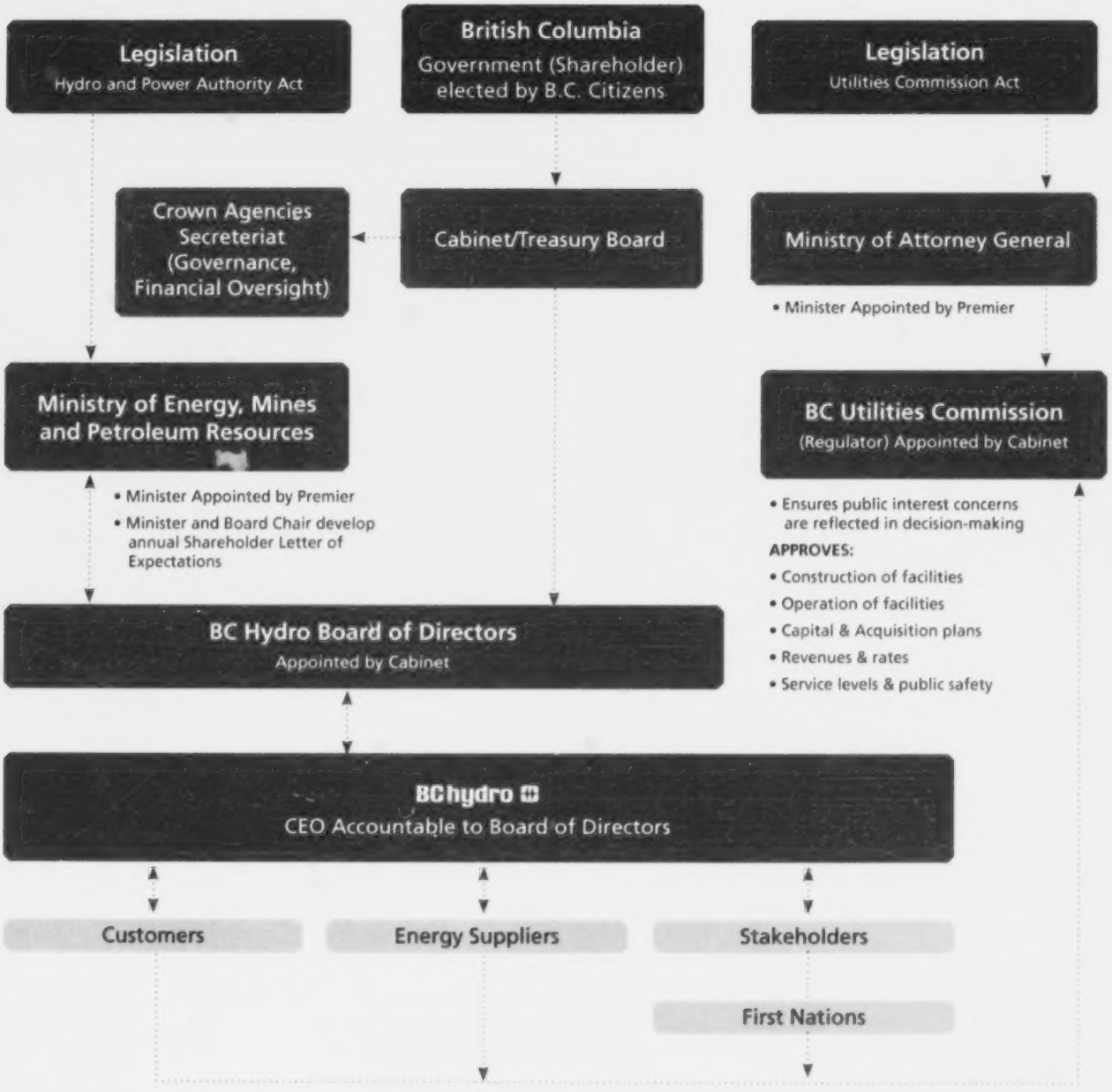
AUDIT AND RISK MANAGEMENT
Peter Powell, Chair
Wanda Costuros
Elmer Derrick
Brenda Eaton
Bob Fairweather
Nancy Olewiler
Walter Saponja

POWERTECH LABS INC.

BOARD OF DIRECTORS
Dawn Farrell, Chair – (Resigned July 20, 2007)
Bill Best – (Appointment rescinded January 30, 2008)
Brenda Eaton – (Appointed January 30, 2008)
Nancy Olewiler – (Appointed January 30, 2008)
Ray Stewart – (Appointment rescinded January 30, 2008)
Bev Van Ruyven, Chair – (Reappointed Chair October 25, 2007 - rescinded January 30, 2008)
Donna LeClair – (Appointment rescinded January 30, 2008)
Mossadiq Umedaly – (Appointed January 30, 2008)

OFFICERS
Dawn Farrell, Chair – (Resigned July 20, 2007)
Bev Van Ruyven, Chair – (Reappointed Chair October 25, 2007 - rescinded January 30, 2008)
Richard Marchant, Chief Operating Officer – (Appointment rescinded April 1, 2008)
Myra Watson, Secretary
Diana Seehagen, Assistant Secretary

BC Hydro Shareholder-Regulatory Relationships Framework


Legislation
Hydro and Power Authority Act
British Columbia
Government (Shareholder) elected by B.C. Citizens
Legislation
Utilities Commission Act
Crown Agencies Secreteriat (Governance, Financial Oversight)
Cabinet/Treasury Board
Ministry of Attorney General
• Minister Appointed by Premier
Ministry of Energy, Mines and Petroleum Resources
• Minister Appointed by Premier
• Minister and Board Chair develop annual Shareholder Letter of Expectations
BC Utilities Commission
(Regulator) Appointed by Cabinet
• Ensures public interest concerns are reflected in decision-making
APPROVES:
• Construction of facilities
• Operation of facilities
• Capital & Acquisition plans
• Revenues & rates
• Service levels & public safety
BC Hydro Board of Directors
Appointed by Cabinet
BC hydro
CEO Accountable to Board of Directors
Customers
Energy Suppliers
Stakeholders
First Nations

As a provincial Crown corporation, BC Hydro has a number of important reporting relationships within the overall provincial government structure. These are detailed in the above chart. Included are the direct reporting relationship to the Minister of Energy, Mines, and Petroleum Resources, the governance and financial oversight roles the Crown Agencies Secretariat has for major commercial Crown corporations and the role that our regulator – the BCUC – plays on behalf of the interests of our customers.

Financial Results
MANAGEMENT DISCUSSION AND ANALYSIS MARCH 31, 2008

The Management Discussion and Analysis reports on BC Hydro's consolidated results and financial position for the year ended March 31, 2008 (fiscal 2008). This discussion should be read in conjunction with the consolidated financial statements of the company and related notes. This report contains forward-looking statements, including statements regarding the business and anticipated financial performance of BC Hydro. These statements are subject to a number of risks and uncertainties that may cause actual results to differ from those contemplated in the forward-looking statements.

For fiscal 2008, BC Hydro's results benefited from water inflows being 29 per cent per cent higher than prior year (and 14 per cent higher than average) resulting in higher hydro generation at a lower unit cost per megawatt hour (MWh) and reducing energy purchases. Differences to planned amounts are deferred for the benefit of customers.

HIGHLIGHTS

- Net income for the year ended March 31, 2008, was $369 million, a decrease of $38 million from the prior year. This resulted in a return on equity of 11.33 per cent compared with 13.44 per cent for fiscal 2007.
- For the year ended March 31, 2008, BC Hydro experienced higher than average system inflows (114 per cent of average), resulting in a 15 per cent increase in hydro generation over the prior year. BC Hydro and its customers benefited from this increase by reducing the volume of energy purchases acquired to meet domestic requirements, which lowered the overall cost of energy.
- Property, plant and equipment expenditures of $1,072 million are 33 per cent higher ($265 million) than the prior year primarily due to growth and expansion of generation facilities, such as the ongoing work for the installation of a fifth turbine unit in the Revelstoke dam, reinforcement work underway on the Vancouver Island transmission connection, system resiliency work to enhance capacity to withstand storms, and increased volume of new customer construction.

(Dollar amounts in millions)	2008	2007	Change
Total Assets	**$ 13,610**	$ 12,861	$ 749
Shareholder's Equity	**$ 1,921**	$ 1,783	$ 138
Net Income	**$ 369**	$ 407	$ (38)
Payment to the Province	**$ 288**	$ 331	$ (43)
Return on Equity [1]	**11.33%**	13.44%	(2.11%)
Debt to Equity [1]	**70:30**	70:30	-
Number of Domestic Customers	**1,766,937**	1,736,741	30,196
GWh Sold (Domestic)	**53,300**	52,911	389
Property, Plant and Equipment and Intangible Asset Expenditures	**$ 1,072**	$ 807	$ 265

[1] Based on equity as defined for regulatory purposes

Consolidated Results of Operations

Income before regulatory accounts of $227 million for the year ended March 31, 2008, compares with $379 million in the previous year. The primary reasons for the decrease are an increase in operating costs due to First Nations settlement provisions and an increase in finance charges, offset by an increase in gross margin on sales due to lower domestic energy costs and lower amortization expense.

Net income after regulatory account transfers was $369 million for the year ended March 31, 2008, compared with $407 million in the previous year. BC Hydro's net income decreased from fiscal 2007 mainly due to decreased income from energy trading activities and higher finance charges.

REVENUES

REVENUES

	(in millions)		(gigawatt hours)	
	2008	2007	2008	2007
Domestic:				
Residential	$ 1,171	$ 1,070	17,553	16,651
Light industrial and commercial	1,054	1,025	18,406	18,268
Large industrial	536	556	15,380	15,989
Other energy sales	183	135	1,961	2,003
	$ 2,944	$ 2,786	53,300	52,911
Trade:				
Electricity	$ 1,053	$ 904	37,450	33,372
Gas	858	502	14,365	7,964
	$ 1,911	$ 1,406	51,815	41,336
Total	$ 4,855	$ 4,192	105,115	94,247

Total revenues for the year of $4,855 million increased 15.8 per cent over fiscal 2007 due to higher average customer rates and increased consumption. In the residential and light industrial and commercial sectors the increase was driven primarily by customer growth. Residential load was also impacted by colder temperatures during the winter months. These increases were offset by lower revenues from large industrial customers due to the coastal forestry strike and reduced demand for lumber. Total volumes of 105,115 GWh were 11.5 per cent higher than fiscal 2007 mainly as a result of higher trade volumes in the gas sector.

DOMESTIC REVENUES

Total domestic revenues of $2,944 million for the year ended March 31, 2008, were $158 million or 5.7 per cent higher than the previous year. Average sales prices were higher than last year due to a 2.1 per cent rate increase effective February 1, 2007. Consumption was higher in the residential and light industrial and commercial sectors, offset by lower large industrial consumption.

There was a 9.4 per cent increase in residential revenue due to 7. 7 per cent cooler average temperatures during the year and the addition of 30,196 customers. Light industrial and commercial revenues increased 2.8 per cent from the higher rates and 1,791 additional customers. Revenue for large industrial customers decreased 3.6 per cent from fiscal 2007 due to reduced consumption as a result of the coastal forestry strike and lower demand for lumber due to the weak U.S. housing market. Other energy sales increased 35.5 per cent due to sales to Powerex to aid in system optimization in response to the elevated risk of spill and increased mark-to-market gains on forward energy contracts in fiscal 2008 compared with losses in fiscal 2007.

TRADE REVENUES

The interconnection of BC Hydro's electricity system with systems in Alberta and the western United States facilitates sales and purchases of electricity outside of British Columbia. Energy trade activities are carried out by Powerex, a wholly owned subsidiary of BC Hydro. Trade activities help BC Hydro balance its system by being able to import energy to meet domestic demand when there is a supply shortage in the system due to such factors as low water inflows. Exports are made only after ensuring domestic demand requirements can be met.

Trade revenue for the year ended March 31, 2008, is $1,911 million, an increase of 35.9 per cent compared with $1,406 million for the prior year. The increase is primarily due to a $356 million increase in gas revenue as a result of an 80.3 per cent increase in gas sales volumes partially offset by a 6.3 per cent decrease in the average gas sales price. Gas sales volumes rose to 14,365 GWh in fiscal 2008 (2007 – 7,964 GWh) as a result of increased gas trading activity in the current year that was primarily focused on optimizing gas pipeline positions to realize locational spreads and optimizing gas storage agreements. The average gas sales price in fiscal 2008 decreased to $58.40/MWh (2007 – $62.33/MWh).

In addition, electricity revenue increased by $149 million largely as a result of a 12.2 per cent increase in sales volumes in fiscal 2008 to 37,450 GWh (2007 – 33,372 GWh) to capture periods of high market prices and also to aid in system optimization due to the high risk of spill in the BC Hydro system from May through August. The average electricity sales price increased 1 per cent to $64.73/MWh (2007 – $64.17/MWh).

ENERGY COSTS

Energy costs are influenced primarily by the volume of energy consumed and the mix of sources of supply. The mix of sources of supply is influenced by variables such as the market price of energy, water inflows, reservoir levels, energy demand and environmental and social impacts.

ENERGY COSTS	(in millions)		(gigawatt hours)		($ per MWh)	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Hydro generation	$ 318	$ 259	51,655	44,886	$ 6.10	$ 5.82
Purchases from Independent Power Producers and other long-term contracts	477	363	7,765	6,041	61.39	60.09
Other electricity purchases – Domestic	152	248	2,259	5,698	67.43	43.52
Gas for thermal generation	64	78	613	1,060	104.67	73.58
Transmission charges and other expenses	63	22	115	112	-	-
Allocation from (to) trade energy	(126)	67	(2,412)	656	56.04	64.32
Total Domestic	**$ 948**	**$1,037**	**59,995**	**58,453**	**$15.80**	**$17.74**
Other electricity purchases – Trade[1]	$ 563	$ 438	34,020	33,815	$55.27	$50.34
Remarketed gas	828	480	14,749	8,320	56.16	57.67
Transmission charges and other expenses	237	229	–	–	–	–
Allocation (to) from domestic energy	126	(67)	2,412	(656)	56.04	64.32
Total Trade	**$1,754**	**$1,080**	**51,181**	**41,479**	**$60.01**	**$56.52**
Total Energy Costs	**$2,702**	**$2,117**	**111,176**	**99,932**	**$36.15**	**$33.84[2]**

[1] Other electricity purchases in dollars include purchases for trade activities shown net of derivatives. Gigawatt hours and $ per MWh are shown at gross cost.
[2] Total cost per MWh includes other electricity purchases at gross cost.

For the year ended March 31, 2008, total energy costs of $2,702 million were $585 million or 27.6 per cent higher than the previous year. The increase is partly a result of higher purchases from Independent Power Producers (IPPs) and greater hydro generation as a result of higher water inflows and greater volumes of gas purchases for trade. Total volume of energy supplied was 111,176 GWh, 11.2 per cent more than the prior year, with an average purchase price of $36.15/MWh, a 6.8 per cent increase over fiscal 2007.

Domestic energy costs of $948 million were $89 million lower than fiscal 2007, a decrease of 8.6 per cent. The change is a result of greater hydro generation due to higher water inflows, which resulted in lower electricity purchases for the domestic market. Thermal energy sources were lower for the year ended March 31, 2008, as in the prior year increased production from Burrard Thermal was required to meet demand during peak periods. Lower volumes were offset by higher natural gas prices at $104.67 per MWh versus $73.58 per MWh last year.

Trade cost of energy for the year ended March 31, 2008, is $1,754 million, an increase of 62.4 per cent compared with $1,080 million for the prior year. The increase is primarily due to a $348 million increase in the cost of gas purchases as a result of a 77.3 per cent increase in gas purchase volumes partially offset by a 2.6 per cent decrease in the average gas purchase price. Gas purchase volumes in fiscal 2008 increased to 14,749 GWh (2007 - 8,320 GWh) as a result of increased gas trading activity, which was primarily focused on optimizing gas pipeline positions to realize locational spreads and optimizing gas storage agreements. The average gas purchase price in fiscal 2008 decreased to $56.16/MWh (2007 - $57.67/MWh). In addition, the cost of electricity purchases increased by $125 million largely as a result of a 9.8 per cent increase in the average electricity purchase price of $55.27/MWh (2007 – $50.34/MWh). Electricity purchase volumes increased 1 per cent to 34,020 GWh (2007 – 33,815 GWh).

ENERGY COSTS (CONTINUED)

Water inflows into BC Hydro's reservoirs were 29 per cent higher during the year ended March 31, 2008, compared with the prior year. This resulted in an increase in the volume of low-cost hydro generation and reduced the need for more expensive electricity imports. The decision to import energy instead of utilizing hydro generation is based on many factors, such as the forecast market price of energy in future periods relative to the current period, current reservoir levels and future demand requirements. Operating constraints related to legal and regulatory obligations such as minimum reservoir levels and stream flow requirements also affect the decision to import energy.

As a result of higher inflows and significantly higher generation during the year, reservoirs have been managed such that the combined storage in BC Hydro reservoirs at March 31, 2008, was 106 per cent of average compared with 103 per cent of average at March 31, 2007 (average storage levels refer to the average levels from years 1986 to 2007), with the Williston Reservoir on the Peace River system at 115 per cent of average (2007 – 97 per cent) due to higher levels of precipitation, while the Kinbasket Reservoir on the Columbia River system is at 79 per cent of average (2007 – 110 per cent) due to below average precipitation in that part of the province.

OPERATIONS COSTS

Operations costs for the year ended March 31, 2008, were $241 million higher than the previous year. The increase from fiscal 2007 was primarily due to $229 million in provisions made in the current year for First Nations settlements costs and the $17 million increase in demand-side management program expenditures in fiscal 2008. Expenditures on demand-side management programs (Power Smart) were higher in fiscal 2008 as a result of increased emphasis on energy conservation.

MAINTENANCE COSTS

Maintenance costs for the year ended March 31, 2008, were $12 million higher than the previous year. The increase was primarily due to increased asset restoration and dam safety expenditures, system resiliency improvements in order to enhance capacity to withstand storms, and higher levels of work in vegetation maintenance and routine system restoration.

GENERAL AND ADMINISTRATIVE COSTS

Total general and administrative costs were $27 million lower for year ended March 31, 2008, compared with the prior year. The reduction is primarily a result of lower non-current pension service costs resulting from improved returns on the pension plan assets.

AMORTIZATION EXPENSE

Amortization expense for the year ended March 31, 2008, was $10 million lower than the previous year. This was due to gains realized on disposal of assets, including a compressor asset, as well as a one-time charge recorded in fiscal 2007 to reduce net book values by $24 million as a result of the implementation of the recommendations in a depreciation study undertaken by BC Hydro. This impact was partially offset by an increase in assets in service compared to the prior year and the write-off of assets related to the Northern Transmission Line project.

FINANCE CHARGES

Finance charges for the year ended March 31, 2008 were $10 million higher than the previous year. This was primarily a result of lower U.S. dollar sinking fund income ($14 million) and a higher than average amount of debt ($12 million). This was partially offset by the favourable variances in foreign exchange due to a stronger Canadian dollar in fiscal 2008 ($4 million) and higher interest capitalization during construction ($12 million) given the company's increased capital program.

Return on Equity and Payment to the Province

(dollar amounts in millions)	2008	2007
Actual return on equity[1]	11.33%	13.44%
Allowed return on equity[2]	12.05%	13.10%
Payment to the Province	$288	$331

BC Hydro is required to make an annual Payment to the Province equal to 85 per cent of its distributable surplus assuming that the debt to equity ratio, as defined by the Province, after deducting the payment, is not greater than 80:20.

1 Based on equity as defined for regulatory purposes.

2 BC Hydro's allowed return on equity for F07 and F08 was set by the Commission via BCUC Order G-143-06 dated November 10, 2006. The allowed return on equity has been calculated to equal, on a pre–income tax basis, that of the most comparable investor–owned utility.

Liquidity and Capital Resources

Cash flow provided by operating activities for the year ended March 31, 2008, was $836 million, compared with $557 million for the prior year. The primary reasons that cash flow provided by operating activities increased in fiscal 2008 included solvency payments made to the BC Hydro Pension Benefit Plan of $111 million in the prior year that were not required in the current year. Net changes in working capital and in regulatory account transfers also contributed to increases in cash flow in fiscal 2008.

Through March 31, 2008, BC Hydro was subject to an overall borrowing limit imposed by legislation, dating back to March 1984, of $8,800 million, net of sinking funds as defined by the Hydro Power and Authority Act, a limit that was repealed effective May 1, 2008. At March 31, 2008, BC Hydro had an unused borrowing capacity totalling $1,245 million. During fiscal 2008, BC Hydro issued $830 million of new bonds and increased revolving borrowing by $159 million. The funds from these issues, cash flows from operations and sinking funds were used to redeem $542 million of bonds, fund the Payment to the Province and fund property, plant and equipment expenditures. Long-term debt, net of sinking funds and cash and cash equivalents, was $7,519 million at March 31, 2008, compared with $6,916 million as at the end of the prior year.

Property, Plant and Equipment and Intangible Asset Expenditures

(dollar amounts in millions)	2008	2007	Increase
Generation replacements and expansion	$ 287	$ 180	$ 107
Transmission lines and substation replacements and expansion	287	247	40
Distribution improvements and expansion	357	295	62
General – including computers and vehicles	141	85	56
Total property, plant and equipment and intangible asset expenditures	**$ 1,072**	**$ 807**	**$ 265**

For the year ended March 31, 2008, the increase in generation replacements and expansion is primarily due to work on growth projects including Revelstoke 5, station refurbishments, and spillway gate reliability improvements. The increase in transmission expenditures is primarily due to higher expenditures on Vancouver Island Transmission Reinforcement and the Mission and Matsqui Reinforcement projects, which were in early stages in fiscal 2007. The increase in distribution improvements and expansion is primarily due to system resiliency and system improvement projects as well as a higher level of customer growth projects such as new residential developments. The increase in general expenditures is primarily due to site purchases related to field building redevelopment work.

Derivative Financial Instrument Assets and Liabilities

Effective April 1, 2007, all derivative financial instruments are required to be carried on the balance sheet at fair value. As at March 31, 2008, BC Hydro recorded a net derivative financial instrument liability of $81 million ($187 million asset less $268 million liability) compared with a net derivative financial instrument asset of $18 million in the prior year. In the prior year, only contracted commitments for foreign exchange transactions and Powerex trading activities that met the definition of a derivative and were not designated as effective hedges were recorded on the balance sheet.

Comparison with Service Plan

Each year, BC Hydro's Service Plan is prepared for presentation to the British Columbia Legislature under the *Budget Transparency and Accountability Act*. The plan outlines BC Hydro's goals, objectives and key strategies, along with the results it expects to achieve for the following three-year period.

In BC Hydro's February 2007 Service Plan, fiscal 2008 net income was forecast to be $365 million.

Actual income before regulatory account transfers for the year ended March 31, 2008, was $227 million, which was $97 million lower than the February 2007 Service Plan forecast of $324 million. This is primarily the result of higher than forecast operating costs due to provisions for First Nations settlements and lower than forecast trade income due to the impact of the decrease in the value of the U.S. dollar combined with reduced volatility in market prices.

Trade revenues were $320 million higher than the February 2007 Service Plan primarily due to a significant increase in gas trading activity. This is offset by higher trade energy costs due to a corresponding increase in gas purchase volumes, partially offset by 6 per cent decrease in electricity purchase volumes.

Operations costs increased $227 million from the February 2007 Service Plan due to First Nations costs on the income statement. Maintenance costs increased $38 million from the 2007 Service Plan mainly due to higher routine restoration costs and unplanned storm restoration costs incurred during the winter months.

Administration costs decreased $27 million due to the lower non-current service pension costs.

Amortization expense is $6 million lower than the February 2007 Service Plan due to the gain on sale of assets and fewer assets in service than planned for the year.

The impact to net income of these variances is partially transferred to regulatory accounts. As a result, the actual net income of $369 million was $4 million more than the February 2007 Service Plan.

The table on the next page provides an overview of BC Hydro's financial performance relative to its 2008 to 2010 Service Plan Update (February 2007). The results and forecasts form the basis upon which key performance targets are set.

Comparison with Service Plan

	Actual			Service Plan	
				Forecast	Variance
in millions	2006	2007	2008	2008	
Revenues					
Domestic					
Residential	$ 1,046	$ 1,070	$ 1,171	$ 1,144	$ 27
Light Industrial and Commercial	989	1,025	1,054	1,062	(8)
Large Industrial	584	556	536	585	(49)
Other energy sales	93	99	127	99	28
Miscellaneous	16	36	56	57	(1)
Total Domestic	2,727	2,786	2,944	2,947	(3)
Trade	1,584	1,406	1,911	1,591	320
Total	4,311	4,192	4,855	4,538	317
Expenses					
Energy costs	2,488	2,117	2,702	2,503	(199)
Operating costs	805	716	942	704	(238)
Taxes	147	149	153	154	1
Amortization	411	378	368	374	6
	3,851	3,360	4,165	3,735	(430)
Operating Income	**460**	**832**	**690**	**803**	**(113)**
Finance charges	435	453	463	480	17
Income Before Regulatory Account Transfers	**25**	**379**	**227**	**324**	**(97)**
Regulatory Account Transfers	241	28	142	41	101
Net Income	**$ 266**	**$ 407**	**$ 369**	**$ 365**	**$ 4**

Accounting Policies

On April 1, 2007, BC Hydro adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1530, Comprehensive Income, Handbook Section 3855, Financial Instruments – Recognition and Measurement, Handbook Section 3861, Financial Instruments – Disclosure and Presentation, and Handbook Section 3865, Hedges. The company adopted these standards retroactively with an adjustment of opening accumulated other comprehensive income and retained earnings; accordingly, comparative amounts for prior periods have not been restated.

Upon adoption of Section 1530 a new category, accumulated other comprehensive income (AOCI), was added to shareholder's equity. Comprehensive income consists of net income and other comprehensive income (OCI). OCI represents changes in shareholder's equity during a period arising from transactions and changes in the fair value of the effective portion of cash flow hedging instruments. Amounts are recorded in OCI until the criteria for recognition in the consolidated statement of income are met.

Section 3855 establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as defined by the standard.

Section 3865 expands the guidelines provided in Accounting Guideline 13, Hedging Relationships, by specifying the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

Refer to note 2 in the consolidated financial statements for more detailed discussion and analysis regarding the adoption of these new standards.

REGULATORY ACCOUNTING

BC Hydro applies various accounting policies that differ from Canadian generally accepted accounting principles for enterprises that do not operate in a rate-regulated environment. Generally, these policies result in deferral and amortization of certain costs and recoveries to allow for adjustment of future rates. In the absence of rate regulation, these amounts would otherwise be included in the determination of net income in the year the amounts are incurred. These accounting policies support BC Hydro's regulation and have been established through ongoing application and approval of the British Columbia Utilities Commission (BCUC).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises. IFRS will replace Canada's current Generally Accepted Accounting Principles (GAAP) for those enterprises. These include profit-oriented enterprises that are responsible to large or diverse groups of stakeholders, including government business enterprises, which would include Crown corporations such as BC Hydro. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. BC Hydro has begun assessing the adoption of IFRS, but the financial reporting impact from the transition to IFRS cannot be reasonably determined at this time.

Accounting Pronouncements

ACCOUNTING FOR RATE-REGULATED OPERATIONS

In August 2007, the AcSB considered the comments received on its March 2007 Exposure Draft, Rate-Regulated Operations, and decided to: (i) remove the temporary exemption in Section 1100, Generally Accepted Accounting Principles, pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation; (ii) not withdraw from the Handbook all other recognition and measurement guidance relating specifically to rate-regulated operations; and (iii) retain AcG-19, Disclosures by Entities Subject to Rate Regulation, but to make consequential amendments to the Guideline as a result of the above changes. The changes are applicable prospectively to BC Hydro's fiscal year beginning on April 1, 2009.

EMPLOYEE FUTURE BENEFITS

The AcSB considered the comments received on its Exposure Draft, Employee Future Benefits (Amendments to Section 3461), and decided not to proceed with the proposed amendments. AcSB members agreed that now is not the right time to implement changes to accounting for employee future benefits. Rather, the focus should be on the implications of adopting International Accounting Standard 19, Employee Benefits, on the date of transition to IFRS, as well as the International Accounting Standards Board's current project to amend that standard.

INVENTORIES

In March 2007, the AcSB approved new section 3031, Inventories, which will replace existing section 3030. The new standard requires the measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs to inventory; the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories; and no longer permits the use of a last-in, first-out inventory costing methodology. The changes will apply to interim and annual financial statements for BC Hydro's fiscal year beginning on April 1, 2008.

CAPITAL DISCLOSURES

In December 2006, the AcSB approved new section 1535, Capital Disclosures. The new standard requires an entity to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. It will also require entities to describe and provide quantitative data about what they manage as capital. The new standard will apply to interim and annual financial statements for BC Hydro's fiscal year beginning on April 1, 2008.

DISCLOSURE AND PRESENTATION OF FINANCIAL INSTRUMENTS

In December 2006, the AcSB approved new section 3862, Financial Instruments – Disclosures and section 3863, Financial Instruments – Presentation. The new standards require entities to provide disclosures and presentations in their financial statements that enable users to evaluate the significance of financial instruments to the entity's financial position and performance. There is also an increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new standards will apply to interim and annual financial statements for BC Hydro's fiscal year beginning on April 1, 2008.

Regulation Updates

REVENUE REQUIREMENT FILING

In regulating and setting rates for BC Hydro, the BCUC must ensure that the rates are sufficient to allow BC Hydro to provide reliable electricity service, meet its financial obligations, comply with government policy and achieve an annual rate of return on equity based on forecast consolidated net income. The annual rate of return on equity is equal to the pre-income tax annual rate of return allowed by the BCUC to the most comparable investor-owned energy utility regulated under the Utilities Commission Act. The allowed annual rate of return on equity calculated for fiscal 2008 was 12.05 per cent (2007 – 13.1 per cent). The actual rate of return in fiscal 2008 was 11.33 per cent. The allowed annual rate of return for fiscal 2009 is estimated at 11.78 per cent.

BC Hydro filed its Revenue Requirements Application (RRA), for fiscal 2009 and fiscal 2010, with the BCUC on February 20, 2008. BC Hydro is seeking a rate increase of 6.56 per cent effective April 1, 2008, and a further increase of 8.21 per cent to take effect on April 1, 2009. The main cost drivers for these rate increases are the increasing cost of energy purchases to meet domestic needs, the increased level of capital expenditures to upgrade and expand our system, and the inflationary and growth pressures on operating costs.

Any requested rate increase requires the approval of the BCUC. BC Hydro expects a decision on the application in fall 2008. In the meantime, the BCUC approved an interim rate increase of 6.56 per cent effective April 1, 2008 as well as the applied for reduction in the deferral account rate rider from 2 per cent to 0.5 per cent for the purpose of recovering a portion of the current balances in the Heritage Deferral Account, Non Heritage Deferral Account, Trade Income Deferral Account and BCTC Deferral Account. The rate rider has an indefinite term. Recovery of deferral accounts as approved by the BCUC from the rate rider in fiscal 2008 was $56 million.

RATE DESIGN

BC Hydro's Rate Design Application (RDA) was filed in March 2007 and reviewed at an oral public hearing over the summer of 2007. A final decision was issued by the BCUC on October 27, 2007. A key determination in the decision was to require BC Hydro to rebalance rates so that by fiscal 2011 the revenue to cost ratio for each customer class equals one. A residential customer group sought reconsideration of this requirement because of the significant impact it would have on increasing residential rates (11 per cent over three years). The BCUC denied this request in January 2008. *On* May 1, 2008, Bill 15, *The Utilities Commission Amendment Act* received Royal Assent, rescinding the BCUC's rate rebalancing decision.

BC Hydro filed a Residential Inclining Block Rate (RIB) application on February 26, 2008. It proposes a two-step rate, with the Step 2 rate price for all energy consumption over 1,600 kWh per bi-monthly billing period. The Step 2 rate is intended to better reflect the long run cost of new energy supply and to provide an effective price signal to encourage energy conservation and efficiency. While the rate is designed to be revenue neutral to the residential rate class, individual customers will see bill impacts, which can be mitigated through consumption behaviour changes and participation in BC Hydro's Power Smart programs.

The Transmission Service Rate Re-Pricing (TSR) application was filed on February 22, 2008, proposing to increase the Tier 2 rate for industrial customers from 5.40 cents/kWh to 7.36 cents/kWh to reflect newer information on BC Hydro's long-term opportunity cost of new supply. The BCUC approved the rate on an interim basis effective April 1, 2008.

The BCUC commenced separate reviews of the F09/F10 RRA, RIB and TSR applications in March with BC Hydro responding to information requests concerning each application.

STANDING OFFER PROGRAM

The Standing Offer Program (SOP) establishes a standing offer for power produced from clean electricity projects up to 10 megawatts, and is consistent with the policy action in the provincial government's Energy Plan. The proposed terms and conditions of the SOP were filed with the BCUC on December 14, 2007. BC Hydro successfully negotiated a settlement of this application with its customer groups and stakeholders, the terms of which were approved by the BCUC in March 2008.

Over the next two years BC Hydro estimates the SOP will provide an estimated 90 to 900 GWh per year of clean, renewable electricity in addition to the "Environmental Attributes" associated with successful SOP projects. BC Hydro has proposed a base price for electricity for eight regions ranging from $65/MWh in the Peace Region to $79/MWh in the Vancouver Island region.

REGULATORY ACCOUNTS

BC Hydro has established various regulatory accounts with approval of the BCUC. Regulatory accounts allow BC Hydro to defer certain types of revenue and cost variances through transfers to and from the accounts, which has the effect of adjusting net income. The deferral amounts are then included in customer rates in future periods, subject to approval by the BCUC.

In fiscal 2008, BC Hydro made an application to the BCUC for approval to extend the First Nations Loss Provision regulatory account to include any provision for future negotiation and settlement costs. On January 21, 2008, the BCUC approved the extension of this account in respect of these costs. In addition, on February 1, 2008, the BCUC approved a regulatory account for costs incurred in fiscal 2008 associated with the company's enhancement of its procurement processes. BC Hydro has also applied to the BCUC in the fiscal 2009/2010 RRA for approval of the Capital Project Investigation Costs regulatory account.

Powerex Legal Proceedings

Since 2000, Powerex has been named, in some cases along with other energy providers, in a number of lawsuits and U.S. federal regulatory proceedings that seek damages and/or contract rescission based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and energy prices were not just and reasonable. These proceedings are at various stages. A summary of significant cases is described below.

A number of lawsuits have been dismissed on the basis that the proceedings should be at the U.S. Federal Energy Regulatory Commission (FERC). One remains outstanding. In *California Department of Water Resources (CDWR) vs. Powerex*, CDWR is seeking to have contracts under which it transacted with Powerex in 2001 set aside on the basis of duress and public policy. If it is successful in having the contracts set aside, the case will then go to FERC to determine appropriate remedies.

The U.S. Court of Appeals for the Ninth Circuit has remanded back to FERC the *Lockyer* case with instructions that FERC should reconsider its remedial powers thereby opening up the possibility that refunds will have to be paid for energy sales during the period May to October 2000. FERC has issued an order that an evidentiary hearing will be held in *Lockyer*. In other cases, the Ninth Circuit has issued conflicting decisions on whether refunds should be paid relating to bilateral sales. It rejected FERC's categorical exclusion of bilateral purchases and remanded one case back to FERC opening up the possibility that Powerex would have to pay refunds for energy sales during the period January to June 2001. Powerex is seeking rehearing of that decision. As it relates to the period from October to December 2000, FERC has already decided that refunds will have to be paid but the precise amount has not been determined.

At March 31, 2008, Powerex was owed US $268 million (CDN $275 million) by the markets operated by the California Power Exchange (Cal Px) and the California Independent System Operator (CISO) related electricity trade activities by Powerex in California during the period covered by the lawsuits. As a result of defaults by a number of California utilities, the Cal Px and CISO were unable to pay these amounts to Powerex. It is expected those receivables will be offset against any refunds that Powerex is required to pay.

FERC has approved a settlement agreement between FERC staff and Powerex that acknowledges that there was no evidence that Powerex engaged in any gaming practices or concerted partnership practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier to the California market throughout the energy crisis. FERC has not issued a final order in that settlement.

BC Hydro was also joined as a defendant in the California Consumer Class Action lawsuit through cross-claims by other defendants. In response to an application by BC Hydro to be dismissed from the lawsuit, a U.S. Federal District Court judge ruled that BC Hydro is immune from these claims in the United States by virtue of the Foreign Sovereign Immunities Act (FSIA). The Ninth Circuit upheld this finding. The court also upheld the District Court's finding that Powerex does not enjoy foreign sovereign entity status and therefore remains a party to the lawsuit, which was ordered to be remanded back to California State Court. Powerex appealed that decision to the Supreme Court of the United States, which heard the case on April 16, 2007. On June 18, 2007, the Supreme Court determined it did not have jurisdiction and therefore did not grant Powerex the FSIA order requested. However, the Supreme Court also determined that the Ninth Circuit did not have jurisdiction and therefore that court's decision that Powerex was not an instrumentality of a foreign sovereign, will be set aside.

Due to the ongoing nature of the regulatory and legal proceedings against Powerex, management cannot predict the outcomes of the claims against Powerex. Powerex has recorded provisions for uncollectible amounts and legal costs associated with the California energy crisis. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that are ultimately collected or paid may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the process.

Risk Management

BC Hydro's operations involve a broad spectrum of risks ranging from those commonly associated with any business to catastrophic societal loss risks that would have severe effects on entire regions. The key risks BC Hydro faces are divided into six categories for management purposes: employee, public and dam safety; reliability; financial performance; regulatory; organization risk; and environmental.

EMPLOYEE, PUBLIC AND DAM SAFETY

Safety risks to the public exist due to the multiple uses of water for electricity generation, recreation and waterways. Risks can also result from potential contact with transmission and distribution equipment located in communities. To manage the public safety risk, BC Hydro relies on design, construction and operating standards and practices, signage, consultation with other agencies and stakeholder groups, and public education. BC Hydro also prepares emergency response plans to limit injury and loss of life and to restore electric service.

Many of BC Hydro's employees face the risk of serious injury or death by the nature of their jobs in dealing with electrical and other high-risk hazards. To mitigate these inherent risks, BC Hydro has a comprehensive safety management system that includes employee involvement, communication, training, resources, policies and safety practice regulations.

The large dams represent a catastrophic loss risk (low probability but high consequence) to BC Hydro in terms of life safety, financial, environmental and reputation. This dam failure risk is managed through a comprehensive dam safety management system involving dam safety professionals and experts. The system incorporates dam surveillance and monitoring, periodic independent reviews of dam performance, dam investigations and analysis. Dam upgrades may be required due to changes in knowledge, standards or extreme event parameters (for earthquake, floods, landslides). BC Hydro follows the B.C. Dam Safety Regulation, participates in the Canadian Dam Association and the International Commission on Large Dams, and engages panels of international experts for independent advice on the management and control of these risks.

RELIABILITY

The most significant risk to the reliability of BC Hydro's system is the impact of weather. With BC Hydro's large service territory, there is significant exposure to trees, terrain and diverse weather patterns. BC Hydro mitigates the likelihood and consequence of such impacts through effective design, construction, operations, maintenance and response. BC Hydro manages these risks by balancing customers' expectations and cost considerations. Reliability risks could also result from either a lack of available generation supply or the associated transmission capacity to meet customer demand. BC Hydro manages these risks through long-term planning, asset maintenance programs, reliance on a diverse supply of energy options, and through cooperative support arrangements with neighbouring utilities.

BC Hydro must meet government permitting requirements to operate its facilities and build new infrastructure, which can have an impact on project lead times. Delays in obtaining appropriate permits and consent could adversely impact reliability.

FINANCIAL PERFORMANCE

In meeting its financial performance targets, BC Hydro faces many risks including energy costs, energy demand, interest and foreign exchange rates, pension obligations, and energy trading. Of these, risks associated with energy costs – specifically water inflows and energy market prices – are the largest.

Increasing costs due to aging infrastructure, the need for new supply and the need to manage environmental impacts create challenges for BC Hydro in maintaining the low electricity cost advantage the province enjoys. How BC Hydro manages trade-offs between these competing objectives will be important to its financial performance and its ability to make the required infrastructure investment. External long-term costs of environmental and social impacts need to be factored into decision-making today to ensure the right business decisions are made for the long term.

ENERGY COST

Energy cost risk is the most significant financial risk to BC Hydro. It can result when BC Hydro is required to purchase electricity from the markets due to increased electricity demand in B.C. or lower-than-expected water inflow levels. It can also result from changing market prices for electricity and natural gas. Prior to fiscal 2008, BC Hydro was a net importer of electricity for seven consecutive years due to average or below average system water conditions every year. Fiscal 2008 was an exceptional inflow year, with inflows well above normal, resulting in BC Hydro being a net seller of electricity. The outlook for fiscal 2009 is for a return to average inflow conditions and, as a result, it is expected that BC Hydro will once again be a net importer of electricity. BC Hydro manages energy cost risk through its flexible hydroelectric system, which allows water to be stored in large reservoirs and used when it is most economic, and by hedging the cost of imported electricity.

ENERGY DEMAND

Energy demand is increasing as B.C.'s population increases and its economy grows. However, this demand increase can be volatile, particularly from larger customers whose consumption is often driven by export markets and world commodity prices. BC Hydro is fully exposed to price risk on all customer demand in excess of its planned load, as customer rates are based on average costs (including heritage energy costs), which are significantly below the price of market purchases.

INTEREST RATES AND FOREIGN EXCHANGE RATES

Changes in interest and foreign exchange rates can significantly impact BC Hydro's finance charges. BC Hydro debt-management strategies include limiting the allowable percentage range of variable interest rate debt, and closely monitoring settlement and counterparty credit risks associated with both derivative and foreign exchange currency agreements. Interest and foreign exchange rate changes can also influence the performance and cost of BC Hydro's employee benefit and pension plans.

At March 31, 2008, $2,781 million or 36.9 per cent of net debt was subject to interest rate reset within the next fiscal year. Interest rate risk is managed within board-approved limits and policies, which require the debt portfolio to be managed using an appropriate blend of fixed and floating rate debt, as well as by managing the term to maturity of its debt portfolio to manage exposure to interest rate movements in the future. BC Hydro utilizes financial instruments, including interest rate swaps and options, to adjust the balance of fixed and floating rate debt, and to reduce its overall cost of borrowing.

BC Hydro is exposed to exchange rate risk through the purchase of U.S. dollar electricity and natural gas, from Powerex through its U.S. trade activities, from U.S. dollar capital equipment purchases and from U.S. dollar debt servicing. Foreign exchange risk is managed within board-approved limits and policies. Both foreign exchange and interest rate risks are monitored and reported on a monthly basis.

ENERGY TRADING

BC Hydro's energy trading subsidiary, Powerex, is exposed to the risk of variable market prices and counterparties who might not meet their obligations. Powerex manages these risks by operating through defined limits that are regularly reviewed by both the Powerex and BC Hydro Boards of Directors. Powerex primarily focuses on near- to mid-term trading positions, backing forward commitments with the physical supply capability of the BC Hydro System, the Canadian Entitlement, and other supply contracts, while operating within Board-approved market and credit limits. Longer-term positions are reviewed in the context of the overall energy trading portfolio.

Powerex is exposed to the risk of litigation, such as the potential liabilities from the California power crisis. The conduct of Powerex employees is governed by its Trading Code of Conduct and Compliance policies and procedures. Powerex also adheres to the Electric Power Supply Association's Code of Ethics and Sound Trading Practices for Electric Power Suppliers to guide its trading activities.

REGULATORY RISK

BC Hydro is permitted to earn an allowed return on equity. Tariff rates are set based upon BC Hydro's cost and equity forecast. Many risks (difference between forecast and actual costs) associated with uncontrollable costs are covered through regulatory deferral accounts. The major cost components susceptible to variation included in the regulatory deferral accounts are water inflows, energy prices including thermal fuel costs, and trade income.

BC Hydro's risk includes those associated with capital assets, domestic load volumes and prices, maintenance, operations and administration costs, and debt-related costs.

ORGANIZATIONAL RISK

The supply of labour is a significant issue for BC Hydro as well as for other utilities and businesses across North America: approximately 30 per cent of BC Hydro's workforce is eligible to retire in the next five years. While BC Hydro has made progress in addressing this issue, strong economies, particularly in British Columbia and Alberta, are making it difficult to find workers. Skilled workers, operational managers and qualified tradespeople are in short supply across the local and Canadian employment marketplace. The cost of living in many British Columbia communities also poses a challenge to recruitment as does the geographic isolation of some BC Hydro locations. Failing to develop BC Hydro's people capacity presents risk to the ability to execute our operational and capital plans.

ENVIRONMENTAL AND SOCIAL PERFORMANCE

BC Hydro's environmental responsibility policy states that BC Hydro will meet or exceed environmental regulations defined by legislation, regulation, government directives and guidelines, as well as its commitments and agreements. Even if there is no environmental or social regulation, BC Hydro can face risks. These risks are managed through voluntary activities, such as Water Use Plans. Voluntary action is taken with a view to managing long-term risk and for cost controls.

Areas where BC Hydro is exposed to the risk of non-compliance with environmental regulations include the release of hazardous materials into the environment, endangerment of wildlife and their habitats, or damage to heritage sites where there is evidence of historic human occupation. These risks are managed through environmental management systems and risk mitigation strategies.

BC Hydro's board approved a corporate social responsibility policy in May 2004. The organization has built practices in this area to manage emerging risks associated with suppliers, employees, stakeholders and First Nations.

First Nations past grievances, land claims, service reliability and regulatory processes pose risks to BC Hydro. These risks are managed through a comprehensive Aboriginal Relations Program. The long-term goal of further building business relationships with First Nations is intended to go beyond addressing the impact of BC Hydro facilities on First Nations and reducing the associated financial, legal and operating risks, to having a more proactive, mutually beneficial approach to working together.

Outlook

BC Hydro's Service Plan is required to be filed in February of each year under the *Budget Transparency and Accountability Act*. BC Hydro's February 2008 Service Plan forecast income before regulatory deferral account transfers for fiscal 2009 is $247 million and forecast net income is $358 million. The Service Plan includes the 6.56 per cent interim rate increase for fiscal 2009 approved by the BCUC. BC Hydro is currently going through its revenue requirement process and the final rate increases approved by the BCUC may differ from the interim rate increase. A decision on the final rate increase is expected in the fall of 2008. Any difference between the final and interim rate increase will be adjusted on customer bills accordingly.

BC Hydro's earnings can fluctuate significantly due to various non-controllable factors such as the level of water inflows, market prices for electricity and natural gas, weather temperatures, interest rates and foreign exchange rates. The February 2008 forecast for fiscal 2009 assumes a customer load increase of 1.39 per cent, 100 per cent of normal total system water inflows, average market electricity purchase prices of CDN $53.80/MWh, short-term interest rates of 4.68 per cent and a U.S. dollar exchange rate of US $0.9864.

Earnings Sensitivity

The following table shows the effect on earnings of changes in some key variables. The analysis is based on business conditions and production volumes for fiscal 2008. Each separate item in the sensitivity analysis assumes the others are held constant. While these sensitivities are applicable to the period and magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances or greater magnitude of changes.

APPROXIMATE CHANGE IN EARNINGS BEFORE REGULATORY DEFERRAL ACCOUNT TRANSFERS

Factor	Change	(in millions)	5-year high	5-year low
Hydro generation[1]	1,000 GWH	$ 50	52,140 GWh	41,601 GWh
Electricity trade margins	$1/MWh	40	N/A	N/A
Interest rates	+/– 1%	35	4.50%[2]	2.39%[2]
Exchange rates (US/CDN)	$ 0.01	5	$ 0.97[3]	$0.67[3]
Weather	1° C change in average temperature	5	0.4° C[4]	–1.2° C[4]
Pension costs	1% change in the expected return of 7.2% on pension assets[5]	5	15.00%	–4.10%

[1] Assumes change in hydro generation is offset by corresponding change in energy imports (i.e., increase in hydro generation is offset by decrease in energy imports).

[2] Interest rates are the average Canadian short-term interest rates (three month Canadian Dollar Offered Rate).

[3] Exchange rates are the average U.S. dollar noon rates for F2004 to F2008.

[4] Weather high and low numbers represent the variance in degrees Celsius from the normal temperatures over the winter months November to March from 2003/04 to 2007/2008. (-1.2 degrees lower than normal to 0.4 degrees higher than normal - normal is the 10-year rolling average).

[5] The impact of this change affects earnings in the subsequent year.

Consolidated Financial Statements 2008

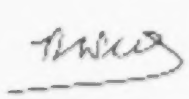
MANAGEMENT REPORT

The consolidated financial statements of British Columbia Hydro and Power Authority (BC Hydro) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 9, 2008. The consolidated financial statements have also been reviewed by the Audit & Risk Management Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit & Risk Management Committee.

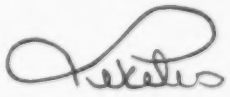
The consolidated financial statements have been examined by independent external auditors. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements, in all material respects, fairly present BC Hydro's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, through the Audit & Risk Management Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit & Risk Management Committee, comprised of directors who are not employees, meets regularly with the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors. The Audit & Risk Management Committee also recommends the appointment of external auditors to the Board of Directors. The internal and external auditors have full and open access to the Audit & Risk Management Committee, with and without the presence of management.



R.G. (Bob) Elton

President and Chief Executive Officer



T. (Trish) Pekeles

Acting Chief Financial Officer

Vancouver, Canada
May 9, 2008

Consolidated Financial Statements 2008

AUDITORS' REPORT

The Lieutenant Governor in Council,
Province of British Columbia:

We have audited the consolidated balance sheet of British Columbia Hydro and Power Authority as at March 31, 2008, and the consolidated statements of operations, comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of British Columbia Hydro and Power Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of British Columbia Hydro and Power Authority as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Vancouver, Canada
May 9, 2008

Consolidated Statement of Operations

for the years ended March 31 (in millions)	2008	2007
Revenues		
Domestic	$ 2,944	$ 2,786
Trade	1,911	1,406
	4,855	4,192
Expenses		
Energy costs		
Domestic	948	1,037
Trade	1,754	1,080
Operations	517	276
Maintenance	305	293
General & administration	120	147
Amortization (Note 5)	368	378
Taxes	153	149
	4,165	3,360
Operating Income	690	832
Finance charges (Note 6)	(463)	(453)
Income Before Regulatory Accounts	227	379
Net change in regulatory accounts (Note 4)	142	28
Net Income	$ 369	$ 407

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the years ended March 31 (in millions)	2008	2007
Net income	$ 369	$ 407
Other comprehensive income (Note 15)	76	–
Comprehensive Income, end of year	$ 445	$ 407

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

for the years ended March 31 (in millions)	2008	2007
Retained earnings, beginning of year	$ 1,783	$ 1,707
Change in accounting policy (Note 2)	1	–
Net income	369	407
Payment to the Province (Note 4)	(288)	(331)
Retained Earnings, end of year	$ 1,865	$ 1,783

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

as at March 31 (in millions)	2008	2007
ASSETS		
Property, Plant and Equipment, net (Note 7)	$ 10,691	$ 10,002
Current Assets		
Cash and cash equivalents	22	8
Current portion of sinking funds (Note 9)	506	153
Accounts receivable and accrued revenue	538	512
Materials and supplies	138	137
Prepaid expenses	99	110
Derivative financial instrument assets	187	61
	1,490	981
Other Assets and Deferred Charges		
Intangible assets, net (Note 8)	411	424
Sinking funds (Note 9)	89	580
Regulatory assets (Note 4)	929	874
	1,429	1,878
	$ 13,610	$ 12,861
LIABILITIES AND EQUITY		
Long-term debt net of sinking funds	$ 6,957	$ 5,655
Sinking funds presented as assets	89	580
Long-Term Debt (Note 10)	7,046	6,235
Current Liabilities		
Current portion of long-term debt, net of current portion of sinking funds	584	1,269
Current portion of sinking funds presented as assets	506	153
Current portion of long-term debt (Note 10)	1,090	1,422
Accounts payable and accrued liabilities	1,281	1,267
Derivative financial instrument liabilities	268	43
	1,549	1,310
Other Liabilities		
Regulatory liabilities (Note 4)	361	429
Deferred contributions (Note 12)	982	913
Debt issue and related costs (Note 2)	-	145
Other long-term liabilities (Note 13)	661	459
Foreign currency contracts (Notes 2 and 11)	-	165
	2,004	2,111
Shareholder's Equity		
Retained earnings	1,865	1,783
Accumulated other comprehensive income (Note 15)	56	-
	1,921	1,783
	$ 13,610	$ 12,861
Commitments and Contingencies (Note 16)		

See accompanying notes to consolidated financial statements

Approved on Behalf of the Board:

M.S. (Mossadiq) Umedaly
Chair

W.C. (Wanda) Costuros
Chair, Audit & Risk Management Committee

Consolidated Statement of Cash Flows

for the years ended March 31 (in millions)	2008	2007
Operating Activities		
Net income	$ 369	$ 407
Regulatory account transfers	3	(121)
Adjustments for non-cash items:		
Amortization of regulatory accounts	84	93
Amortization of property, plant and equipment	326	341
Amortization of intangible assets	42	37
Foreign exchange translation gains	(17)	(2)
Amortization of debt issue and related costs	(3)	(7)
Deferred revenue	20	20
Unrealized derivative financial instrument (gains) losses	27	(41)
Sinking fund income	(25)	(39)
Employee benefit plan expenses	(18)	29
Other non-cash items	15	17
	823	734
Working capital changes	13	(177)
Cash provided by operating activities	836	557
Investing Activities		
Property, plant and equipment and intangible assets	(1,068)	(780)
Deferred contributions	100	85
Dismantling costs	(18)	(16)
Proceeds from property sales	1	7
Cash used for investing activities	(985)	(704)
Financing Activities		
Bonds issued	830	300
Bonds retired	(542)	(526)
Revolving borrowings	159	407
Sinking fund withdrawals	143	147
Debt issue and related costs	-	27
Payment to the Province	(331)	(223)
Settlement of financial instruments	(96)	-
Cash provided by financing activities	163	132
Increase (decrease) in cash and cash equivalents	14	(15)
Cash and cash equivalents, beginning of year	8	23
Cash and cash equivalents, end of year	$ 22	$ 8
Supplemental disclosure of cash flow information		
Interest paid	$ 512	$ 512

See accompanying notes to consolidated financial statements.

Note 1: Significant Accounting Policies

Purpose

British Columbia Hydro and Power Authority (BC Hydro) was established in 1962 as a Crown corporation of the Province of British Columbia (the Province) by enactment of the Hydro and Power Authority Act. As directed by the Hydro and Power Authority Act, BC Hydro's mandate is to generate, manufacture, distribute and supply power. BC Hydro's corporate purpose is to provide "Reliable power, at low cost, for generations." BC Hydro is subject to regulation (see Note 4) by the British Columbia Utilities Commission (the Commission) which, among other things, approves the rates BC Hydro charges for its services.

BC Hydro owns and operates electric generation and distribution facilities in the province of British Columbia. BC Hydro also owns transmission facilities in the province of British Columbia that are operated by British Columbia Transmission Corporation (BCTC), an independent Crown corporation of the Province.

Consolidation

The consolidated financial statements include the accounts of BC Hydro and its principal wholly-owned operating subsidiaries Powerex Corp. (Powerex), Powertech Labs Inc., BCH Services Asset Corp., and Columbia Hydro Constructors Ltd. All intercompany transactions and balances are eliminated upon consolidation.

Use of Estimates

Management of BC Hydro has made a number of estimates and assumptions relating to the reporting of assets and liabilities and to the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with Canadian generally accepted accounting principles (GAAP). Actual results could differ from these estimates.

Regulatory Accounting

BC Hydro is regulated by the Commission, and they are both subject to general or special directives and directions issued by the Province. BC Hydro operates primarily under a cost of service regulation as prescribed by the Commission. Orders in Council from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity and the annual Payment to the Province. Calculation of its revenue requirements and rates charged to customers are established through applications filed with and approved by the Commission.

BC Hydro applies various accounting policies that differ from GAAP for enterprises that do not operate in a rate-regulated environment (see Note 4). Generally, these policies result in deferral and amortization of costs and recoveries to allow for adjustment of future rates. In the absence of rate-regulation, these amounts would otherwise be included in the determination of net income in the year the amounts are incurred. These accounting policies support BC Hydro's regulation and have been established through ongoing application by approval of the Commission.

Revenues and Energy Costs

Domestic revenues comprise sales to customers within the province of British Columbia, and sales of firm energy outside the province under long-term contracts that are reflected in BC Hydro's domestic load requirements. Other sales outside the province are classified as trade.

Trade revenues and energy costs include the effects of using commodity derivatives. The impacts on trading transactions of realized and unrealized gains and losses resulting from changes in fair value are reflected on a net basis.

Revenue is recognized on the basis of billing cycles and also includes accruals for electricity deliveries not yet billed.

Foreign Currency Translation

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

Property, Plant and Equipment

Property, plant and equipment in service are recorded at cost which includes materials, direct and indirect labour, an appropriate allocation of administration overhead and finance charges capitalized during construction. Property, plant and equipment in service include the cost of plant financed by contributions in aid of construction and contributions arising from the Columbia River Treaty. Upon retirement or disposal, any gain or loss is charged to amortization.

Unfinished construction consists of costs of property, plant and equipment that are under construction or not ready for service. Costs are transferred to property, plant and equipment in service when the constructed asset is substantially complete and capable of operation at a significant level of capacity.

Property, plant and equipment in service are amortized on an individual or pooled basis over the expected useful lives of the assets, generally using the straight-line method.

The expected useful lives, in years, of BC Hydro's main classes of property, plant and equipment are:

Generation	
Hydraulic	50 – 100
Thermal	10 – 50
Lines	35 – 100
Substations	20 – 50
Buildings	45 – 50
Equipment	7 – 20
Computer hardware	2 – 10
Service vehicles	7 – 20
Sundry	20 – 45

Intangible Assets

Intangible assets are recorded at cost. Intangible assets with indefinite useful lives are not subject to amortization. These assets are tested for impairment annually or more frequently if events indicate that the asset may be impaired.

Intangible assets with finite useful lives are amortized over their useful lives on a straight line basis. These assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be fully recoverable. The expected useful lives, in years, are as follows:

Software	2 – 10
Land Rights	20
Clearings	100
Sundry	10 – 20

Cash and Cash Equivalents

Cash and cash equivalents include cash and units of a money market fund that are carried at fair value.

Materials and Supplies

Materials and supplies are valued at the lower of average cost and net realizable value.

Financial Instruments

Financial Instruments – Recognition and Measurement

On April 1, 2007 BC Hydro adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments – Recognition and Measurement (see Note 2). Section 3855 establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in income. Financial assets classified as "available-for-sale" are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets and liabilities classified as held-to-maturity are measured at amortized cost using the effective interest method of amortization. Using the effective interest rate method, charges for the year ended March 31, 2008 were $4 million higher than the straight-line depreciation method that would previously have been used. All derivatives, including embedded derivatives that are not closely related to the host contract and must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheet. BC Hydro has selected April 1, 2003 as the transition date for recognizing embedded derivatives and, therefore, recognizes as separate assets and liabilities only those derivatives embedded in hybrid instruments issued, acquired, or substantially modified on or after April 1, 2003. All regular-way purchases or sales of financial assets are accounted for on a settlement date basis.

Derivative Financial Instruments

BC Hydro uses derivative financial instruments to manage interest rate and foreign exchange risks related to debt, and exposure to electricity and natural gas commodity market prices.

Derivative financial instruments are classified as "held-for-trading" unless designated for hedge accounting. Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded in the Consolidated Balance Sheet as either an asset or liability with changes in fair value recognized in net earnings. Realized gains or losses from financial derivatives related to commodity prices are recognized in trade revenues. Realized gains or losses from financial derivatives related to foreign currency exchange rates are recognized in finance charges and domestic revenues. Unrealized gains and losses are recognized at the end of each respective reporting period. The estimated fair value of all derivative instruments is based on quoted market prices or, in their absence, third-party market indications.

Derivative financial instruments are used by BC Hydro to manage economic exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. BC Hydro's policy is not to utilize derivative financial instruments for speculative purposes.

For energy trading activities and certain liability management derivatives that are not accounted for as hedges, mark-to-market accounting is applied. For energy trading, open trade positions that are derivative commodity instruments are recorded at fair value and recorded as assets or liabilities in the balance sheet. The changes in fair value of open positions, primarily resulting from changes in market prices subsequent to the transaction date, are recognized as gains or losses in the period of change. For energy trading activities, the gains or losses are included in trade revenues. For liability management activities, the related gains or losses are included in finance charges. For foreign currency exchange risk associated with natural gas commodities, the related gains or losses are included in domestic revenues.

Hedges

Section 3865 expands the guidelines provided in Accounting Guideline 13, Hedging Relationships, by specifying the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, the hedging relationship is discontinued, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for unrealized gains or losses attributable to the hedged risk and recognized in net income. Changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which is also recorded in net income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged item are amortized to net income over the remaining term of the original hedging relationship.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The ineffective portion is recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

Fair Value

The fair value of financial instruments and energy trading positions reflect changes in the level of commodity market prices, interest and foreign exchange rates. Fair value is determined based on exchange or over-the-counter quotations. Where no such information is available, fair value is established through pricing models and reflects the amount that BC Hydro expects it would receive or pay to terminate the position at the date that the value is established.

Fair value amounts reflect management's best estimates considering various factors including closing exchange or over-the-counter quotations, estimates of future prices and foreign exchange rates, time value and volatility. The assumptions used in establishing fair value amounts could differ from actual prices and the impact of such variations could be material.

Deferred Revenue

Deferred revenue consists principally of amounts received under the Skagit River Agreements. Under these agreements, BC Hydro is required to deliver a predetermined amount of electricity each year for an 80-year period ending in fiscal 2066. In return BC Hydro receives approximately US$22 million each year for a 35-year period ending in fiscal 2021 and US$100,000 (adjusted for inflation) each year for an 80-year period ending in fiscal 2066.

The amounts received under the Skagit River Agreements are deferred and included in income on an annuity basis over the electricity delivery period ending in fiscal 2066.

Deferred Contributions

Contributions in aid of construction are amounts paid by certain customers toward the cost of property, plant and equipment required for the extension of services. These amounts are amortized over the expected useful life of the related assets.

Contributions arising from the Columbia River Treaty relate to three dams built by BC Hydro in the mid-1960s to regulate the flow of the Columbia River. The contributions were made to assist in financing the construction of the dams. These proceeds were deferred and are amortized to income over the period ending in fiscal 2025, the minimum term of the treaty.

Asset Retirement Obligations

Asset retirement obligations are legal obligations associated with the retirement of long-lived assets. A liability is recorded at the present value of the estimated future costs when a reasonable estimate of the fair value can be made. When a liability is initially recorded, BC Hydro capitalizes the costs by increasing the carrying value of the long-lived asset. The liability is adjusted for the passage of time through accretion (interest) expense and the capitalized cost is amortized over the useful life of the associated asset. Actual costs incurred upon settlement of an asset retirement obligation are charged against the related liability to the extent of the accrued balance. Any difference between the actual costs incurred upon settlement of the asset retirement obligation and the recorded liability is recognized as a gain or loss in earnings at that time.

Defined Benefit Plans

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the return on plan assets the assets are valued at fair value. The obligations are discounted using a market interest rate at the end of the year on high-quality corporate debt instruments that match the timing and amount of expected benefit payments.

Transitional obligations and assets and past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active members at the date of amendment.

The excess of the net cumulative unamortized actuarial gain or loss over ten per cent of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the employee benefit plans is 11 years (2007 – 11 years). When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Environmental Expenditures and Liabilities

BC Hydro conducts its operations in a manner that enables it to meet existing statutory requirements of environmental legislation or standards. The objective is to minimize the impact on the quality of the natural and social environment, providing enhancements wherever practical.

Environmental expenditures are expensed as part of operating activities, unless they constitute an asset improvement or act to mitigate or prevent possible future contamination, in which case the expenditures are capitalized and amortized to income. Environmental liabilities are accrued when environmental expenditures related to activities of BC Hydro are considered likely and the costs can be reasonably estimated. Estimated liabilities are reviewed periodically and these reviews can result in adjustments to previously recorded items.

Taxes

BC Hydro pays local government taxes and grants in lieu to municipalities and regional districts. As a Crown corporation, BC Hydro is exempt from Canadian federal and provincial income taxes.

Comparative Figures

Certain amounts in the prior year's statements have been reclassified to conform to the current year's presentation.

Note 2: Adoption of New Accounting Policy

On April 1, 2007, BC Hydro adopted four new accounting standards that were issued by the CICA: Handbook Section 1530, Comprehensive Income, Handbook Section 3855, Financial Instruments – Recognition and Measurement, Handbook Section 3861, Financial Instruments – Disclosure and Presentation, and Handbook Section 3865, Hedges. BC Hydro adopted these standards retroactively with an adjustment of opening retained earnings and accumulated other comprehensive income; accordingly, comparative amounts for prior periods have not been restated.

Impact upon Adoption

The transition adjustments attributable to the re-measurement of financial assets and financial liabilities at fair value were recognized in retained earnings as at April 1, 2007. Adjustments arising from re-measuring financial assets classified as available-for sale or from the effective portion of derivatives designated as cash flow hedges at fair value were recognized in opening Accumulated Other Comprehensive Income (AOCI) as at April 1, 2007.

The transition amounts that were recorded in the opening retained earnings or in the opening AOCI balance on April 1, 2007 were as follows:

(in millions)	Opening Retained Earnings	Opening Accumulated Other Comprehensive Income
Change in accounting policy from the straight line method to the effective interest method for amortization	$ (6)	$ –
Opening ineffective portion of fair value hedges	7	–
Fair value adjustment upon reclassification of Sinking Funds to available-for-sale	–	1
Opening fair value adjustment of cash flow hedges	–	(21)
Transition Adjustments	$ 1	$ (20)

With the adoption of Section 3855, $145 million of transaction costs, premiums and discounts have been reclassified to long-term debt from debt issue and related costs to reflect the adopted policy of capitalizing long-term debt transaction costs, premiums and discounts within long-term debt. The costs capitalized within long-term debt will be amortized using the effective interest method. BC Hydro's policy is to recognize transaction costs associated with financial assets and liabilities, that are classified as other than held for trading, as an adjustment to the cost of those financial assets and liabilities recorded in the balance sheet. These transaction costs are amortized into earnings using the effective interest rate method over the life of the related financial instrument. Previously, BC Hydro deferred these costs within other assets and amortized them straight-line over the life of the related long-term debt.

Note 3: Accounting Pronouncements

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises. IFRS will replace Canada's current Generally Accepted Accounting Principles (GAAP) for those enterprises. These include profit-oriented enterprises that are responsible to large or diverse groups of stakeholders, including government business enterprises, which would include Crown corporations such as BC Hydro. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. BC Hydro has begun assessing the adoption of IFRS, but the financial reporting impact from the transition to IFRS cannot be reasonably determined at this time.

Accounting for Rate-Regulated Operations

In August 2007, the AcSB considered the comments received on its March 2007 Exposure Draft, "Rate-Regulated Operations," and decided to: (i) remove the temporary exemption in Section 1100, Generally Accepted Accounting Principles, pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation; (ii) not withdraw from the Handbook all other recognition and measurement guidance relating specifically to rate-regulated operations; and (iii) retain AcG-19, Disclosures by Entities Subject to Rate Regulation, but to make consequential amendments to the Guideline as a result of the above changes. The changes are applicable prospectively to BC Hydro's fiscal year beginning on April 1, 2009.

Employee Future Benefits

AcSB members agreed that now is not the right time to implement changes to accounting for employee future benefits. Rather, the focus should be on the implications of adopting International Accounting Standard 19, Employee Benefits, on the date of transition to IFRS, as well as the International Accounting Standards Board's current project to amend that standard.

Inventories

In March 2007, the AcSB approved new section 3031, Inventories, which will replace existing section 3030. The new standard requires the measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs to inventory; the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories; and no longer permits the use of a last-in, first-out inventory costing methodology. The changes will apply to interim and annual financial statements for BC Hydro's fiscal year beginning on April 1, 2008.

Capital Disclosures

In December 2006, the AcSB approved new section 1535, Capital Disclosures. The new standard requires an entity to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. It will also require entities to describe and provide quantitative data about what they manage as capital. The new standard will apply to interim and annual financial statements for BC Hydro's fiscal year beginning on April 1, 2008.

Disclosure and Presentation of Financial Instruments

In December 2006, the AcSB approved new section 3862, Financial Instruments – Disclosures and section 3863, Financial Instruments - Presentation. The new standards require entities to provide disclosures and presentations in their financial statements that enable users to evaluate the significance of financial instruments to the entity's financial position and performance. There is also an increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new standards will apply to interim and annual financial statements for BC Hydro's fiscal year beginning on April 1, 2008.

Goodwill and Intangible Assets

In November 2007, the AcSB approved new Section 3064, Goodwill and Intangible Assets, replacing Sections 3062, Goodwill and Other Intangible Assets, and 3450, Research and Development Costs. The new section incorporates material from International Accounting Standard 38, Intangible Assets, addressing when an internally developed intangible asset meets the criteria for recognition as an asset.

The AcSB also approved amendments to Section 1000, Financial Statement Concepts, which reinforces a principle-based approach to the recognition of costs as assets in accordance with the definition of an asset and the criteria for asset recognition in Section 1000. It also clarifies the application of the concept of matching revenues and expenses in Section 1000 such that the current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated. The changes will apply to interim and annual financial statements for BC Hydro's fiscal year beginning on April 1, 2009.

Note 4: Regulation

Rate Regulation

BC Hydro filed its Revenue Requirements Application (RRA), for fiscal 2009 and fiscal 2010, with the Commission on February 20, 2008. BC Hydro is seeking a rate increase of 6.56 per cent on April 1, 2008 and a further increase of 8.21 per cent to take effect on April 1, 2009. The main cost drivers for these rate increases are the increasing cost of energy purchases to meet domestic needs, the increased level of capital expenditures to upgrade and expand our system, and the inflationary and growth pressures on operating costs.

Any requested rate increase requires the approval of the Commission. BC Hydro expects a decision on the application in Fall 2008. In the meantime, the Commission approved an interim rate increase of 6.56 per cent effective April 1, 2008 as well as the applied for reduction in the deferral account rate rider from 2 per cent to 0.5 per cent for the purpose of recovering a portion of the current balances in the Heritage Deferral Account, Non Heritage Deferral Account, Trade Income Deferral Account and BCTC Deferral Account. The rate rider has an indefinite term. Recovery of deferral accounts as approved by the Commission from the rate rider in fiscal 2008 was $56 million.

Regulatory Accounts

The following regulatory assets and liabilities have been established through rate regulation. For the year ended March 31, 2008, the impact of regulatory accounting has resulted in an increase to net income of $142 million (2007 – $28 million increase).

(in millions)	2007	Accounting Policy Change & Other	Additions/ Reductions	Amortization	Net change	2008
Regulatory Assets						
Heritage Deferral Account	$ 178	$ (2)	$ (48)	$ (50)	$ (98)	$ 78
Non-Heritage Deferral Account	209	–	(98)	(59)	(157)	52
BCTC Deferral Account	13	–	12	(4)	8	21
Demand-Side Management Programs	282	–	63	(36)	27	309
First Nation Negotiations, Litigation and Settlement Costs Account	122	–	237	(3)	234	356
Other Regulatory Accounts	70	–	35	8	43	113
Total Regulatory Assets	$ 874	$ (2)	$ 201	$ (144)	$ 57	$ 929
Regulatory Liabilities						
Future Removal and Site Restoration Costs	$ 210	$ –	$ –	$ (18)	$ (18)	$ 192
Trade Income Deferral Account	203	–	(43)	(57)	(100)	103
Foreign Exchange Gains and Losses	16	17	18	15	33	66
Total Regulatory Liabilities	$ 429	$ 17	$ (25)	$ (60)	$ (85)	$ 361
Net	$ 445	$ (19)	$ 226	$ (84)	$ 142	$ 568

With the adoption of Section 3855 certain financial instruments that had previously been deferred as part of the Foreign Exchange Gains and Losses regulatory account have been reclassified to derivative financial instrument assets and liabilities.

Heritage Deferral Account

Under a Special Directive issued by the Province, the Commission was directed to authorize BC Hydro to establish the HDA. This account is intended to mitigate the impact of certain variances between the forecasted costs in the revenue requirements application and actual costs of service associated with the Heritage Resources by adjustment of net income. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $98 million increase in net income (2007 - $63 million).

Non-Heritage Deferral Account

Under a Special Directive issued by the Province, the Commission approved the establishment of the NHDA, which is intended to mitigate the impact of certain cost variances between the forecasted costs in the revenue requirements application and actual costs related to energy acquisition and maintenance of BC Hydro's distribution assets by adjustment of net income. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $157 million increase in net income (2007 - $4 million decrease).

BCTC Deferral Account

Under a Special Directive issued by the Province, variances that arise between the costs of transmission services included in BC Hydro's rates and BCTC's rates are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $8 million decrease in net income (2007 - $12 million increase).

Demand-Side Management Programs

Established under a regulatory order from the Commission, demand-side management programs are designed to reduce the energy requirements on BC Hydro's system. Costs of the programs include materials, direct labour and applicable portions of administration charges, equipment costs, and incentives. Amounts are deferred and amortized on a straight-line basis over the anticipated period of benefit of the program, generally not in excess of ten years.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria would be recorded as property, plant and equipment. In 2008, $63 million of period costs were incurred and amortization of previously capitalized amounts totaled $36 million (2007 - $46 million and $33 million, respectively). Consequently, net income would have been $27 million lower than would have been recorded in the absence of rate regulation (2007 - $13 million).

First Nation Negotiations, Litigation and Settlement Costs

Established under a regulatory order, provisions for and costs incurred with respect to First Nation negotiations, litigation and settlements are deferred and amortized on a straight-line basis over a period of 10 years.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria would be recorded as property, plant and equipment. BC Hydro made an application to the Commission for approval to extend the First Nations Loss Provision regulatory account to include any provision for future negotiation and settlement costs. On January 21, 2008, the Commission approved the extension of this account in respect of these costs. In 2008, $237 million (2007 - $11 million) of period costs were recorded as regulatory assets, and the amortization of previously capitalized amounts totaled $3 million (2007 - $4 million). Consequently, net income would have been $234 million lower than would have been recorded in the absence of rate regulation (2007 - $7 million).

Other Regulatory Accounts

Included in other regulatory accounts are the following regulatory assets and liabilities: Foreign Exchange Gains and Losses Arising from the Translation of Specified Foreign Currency Financial Instruments, Large Hydro Investigation Costs, Depreciation Study Adjustments, CIA Amortization Variance, Major Storm Restoration Costs, costs associated with the Procurement Enhancement Initiative and Capital Project Investigation Costs. All of these accounts have been approved by the Commission through regulatory order, except for the Capital Project Investigation Costs account which BC Hydro is applying to the Commission for approval in the F2009/F2010 RRA.

In 2008, $43 million of costs deferred to these accounts would have decreased net income in the absence of rate regulation (2007 - $52 million).

Future Removal and Site Restoration Costs

As part of its October 2004 decision, the Commission ordered the establishment of a regulatory provision for future removal and site restoration costs. This account was established in 2006 by a one-time transfer of $251 million from retained earnings. The costs of dismantling and disposal of property, plant and equipment will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation.

This liability has been recognized solely as a result of rate regulation as costs for future removal and site restoration have been established in excess of amounts required as asset retirement obligations. In the absence of rate regulation, it would be anticipated that a liability would not be recognized. The amortization of previously capitalized amounts totaled $18 million in the current year (2007 - $16 million). Consequently, net income would be $18 million lower than would have been recorded in the absence of rate regulation.

Trade Income Deferral Account

Established under a Special Directive issued by the Province, this account is intended to mitigate the uncertainty associated with forecasting the net income of BC Hydro's trade activities. The impact is to defer the difference between the Trade Income forecast in the revenue requirements application and actual Trade Income. For the purposes of this calculation, Trade Income is defined as the net income of Powerex based on GAAP. The difference between the Trade Income forecast and actual Trade Income is deferred except for amounts arising from a net loss in Trade Income or the portion of Trade Income in excess of $200 million.

In the absence of rate regulation, GAAP would require the inclusion of actual Trade Income to be reflected in operating results, regardless of the variance between forecast and actual amounts, which would have resulted in a $100 million decrease in net income (2007 - $11 million).

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the Commission and operating results experienced during the year.

Payment to the Province

Under a Special Directive from the Province, BC Hydro is required to make an annual Payment to the Province (the Payment) on or before June 30 of each year. The Payment is equal to 85 per cent of BC Hydro's distributable surplus for the most recently completed fiscal year assuming that the debt to equity ratio, as defined by the Province, after deducting the Payment, is not greater than 80:20. If the Payment would result in a debt to equity ratio exceeding 80:20, then the Payment will be based on the greatest amount that can be paid without causing the debt to equity ratio to exceed 80:20.

Note 5: Amortization

(in millions)	2008	2007
Amortization of property, plant and equipment in service	$ 338	$ 354
Amortization of intangible assets	42	37
Amortization of deferred contributions	(31)	(29)
Property, plant and equipment written-off	12	7
Retirement and disposal of assets	(8)	–
Dismantling costs	18	16
Salvage proceeds	(2)	(2)
Gain on sale of land	(1)	(5)
	$ 368	$ 378

Note 6: Finance Charges

(in millions)	2008	2007
Interest on long-term debt	$ 512	$ 515
Sinking fund income	(25)	(39)
Other	12	1
	499	477
Less: Assigned to unfinished construction	(36)	(24)
	$ 463	$ 453

Note 7: Property, Plant and Equipment

(in millions)	2008				2007			
	Property, Plant and Equipment in Service	Accumulated Amortization	Unfinished Construction	Net Book Value	Property, Plant and Equipment in Service	Accumulated Amortization	Unfinished Construction	Net Book Value
Generation								
Hydraulic	$ 5,730	$ 1,978	$ 307	$ 4,059	$ 5,555	$ 1,885	$ 203	$ 3,873
Thermal	460	284	9	185	457	272	6	191
	6,190	2,262	316	4,244	6,012	2,157	209	4,064
Lines	7,079	2,808	282	4,553	6,685	2,674	261	4,272
Substations	2,563	1,252	115	1,426	2,421	1,206	47	1,262
Other								
Land and buildings	407	189	41	259	390	182	9	217
Equipment	182	120	3	65	224	153	7	78
Computer hardware	62	40	28	50	64	34	1	31
Service vehicles	131	63	10	78	108	56	9	61
Sundry	28	16	4	16	28	15	4	17
	810	428	86	468	814	440	30	404
Total	$ 16,642	$ 6,750	$ 799	$ 10,691	$ 15,932	$ 6,477	$ 547	$ 10,002

Note 8: Intangible Assets

(in millions)	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Subject to Amortization						
Software	$ 357	$ 218	$ 139	$ 356	$ 193	$ 153
Land improvements	178	58	120	177	56	12
Other	37	12	25	37	9	28
	572	288	284	560	258	302
Not Subject to Amortization						
Land Rights	127	–	127	122	–	122
Total	$ 699	$ 288	$ 411	$ 682	$ 258	$ 424

Note 9: Sinking Funds

Sinking funds are held by the Trustee (the Minister of Finance for the Province) for the redemption of long-term debt. The sinking fund balances at the balance sheet date include the following investments:

(dollar amounts in millions)	2008		2007	
	Carrying Value	Weighted Average Effective Rate[1]	Carrying Value	Weighted Average Effective Rate[1]
Money market funds[2]	$ 509	2.8 %	$ 60	4.3 %
Province and BC Crown Corporation bonds	54	4.7	324	4.6
Federal and other provincial government securities	32	4.8	349	4.7
	$ 595		$ 733	

[1] Rate calculated on market yield to maturity.

[2] Money market funds consist of federal and provincial government paper and high-grade commercial paper with a maturity of one year or less.

Effective December 12, 2005, all sinking fund payment requirements on all new and outstanding debt have been removed.

Note 10: Long-Term Debt and Debt Management

BC Hydro's long-term debt comprises bonds and debentures and revolving borrowings obtained under an agreement with the Province.

Under the Hydro and Power Authority Act, BC Hydro is subject to a borrowing limit of $8,800 million after deduction of sinking funds (see Note 19). As at March 31, 2008, BC Hydro's total debt under the borrowing limit was $7,555 million (2007 – $6,924 million). The authorized commercial paper borrowing program, which includes revolving borrowings, is limited to $1,400 million under the Fiscal Agency Agreement between BC Hydro and the Province. At March 31, 2008, the outstanding amount under the borrowing limit was $996 million (2007 - $1,073 million).

During fiscal 2008, BC Hydro issued bonds totaling $830 million (2007 – $300 million) with a weighted average effective interest rate of 4.9 per cent (2007 – 5.0 per cent) and a weighted average term to maturity of 20.4 years (2007 – 22.9 years).

Long-term debt, expressed in Canadian dollars, is summarized in the following table by year of maturity.

(dollar amounts in millions)	2008				2007			
	Canadian	Foreign	Total	Weighted Average Interest Rate[1]	Canadian	Foreign	Total	Weighted Average Interest Rate[1]
Maturing in fiscal								
2008	$ –	$ –	$ –	–	$ 9	$ 577	$ 586	5.9
2009	94	–	94	10.1	94	–	94	10.1
2010	574	51	625	6.5	574	58	632	6.5
2011	150	–	150	6.5	150	–	150	6.5
2012	450	–	450	6.1	450	–	450	6.1
2013	200	–	200	4.8	–	–	–	–
Total								
1 – 5 years	1,468	51	1,519	6.4	1,277	635	1,912	6.4
6 – 10 years	975	206	1,181	6.1	975	231	1,206	6.1
11 – 15 years	1,801	–	1,801	8.5	1,271	–	1,271	9.0
16 – 20 years	110	514	624	6.9	410	576	986	7.6
21 – 25 years	1,300	–	1,300	5.4	1,100	–	1,100	5.4
26 – 30 years	–	308	308	7.4	–	346	346	7.4
Over 30 years	200	–	200	4.9	–	–	–	–
Bonds and debentures	5,854	1,079	6,933	6.7	5,033	1,788	6,821	6.9
Revolving borrowings	996	–	996	3.4	826	10	836	4.2
	6,850	1,079	7,929		5,859	1,798	7,657	
Adjustments to carrying value resulting from hedge accounting	88	20	108		–	–	–	
Unamortized premium, discount and issue costs	112	(13)	99		–	–	–	
	$ 7,050	$1,086	$8,136		$ 5,859	$ 1,798	$ 7,657	
Less: Current portion			1,090				1,422	
Long-term debt			$7,046				$ 6,235	

[1] *The weighted average interest rate represents the effective rate of interest on fixed-rate bonds and the current interest rate in effect at March 31 for floating-rate bonds, all before considering the effect of derivative financial instruments used to manage interest rate risk.*

The following interest rate contracts were in place at March 31, 2008 at a carrying value of $67 million (2007 – nil). Floating rates are based on the effective rates at the balance sheet date and vary over time.

(dollar amounts in millions)	2008	2007
Receive fixed, pay floating rate swaps		
Notional amount[1]	$1,957	$1,592
Weighted average receive rate	4.57%	4.42%
Weighted average pay rate	3.83%	4.54%
Weighted terms	4 years	5 years
Receive floating, pay fixed rate swaps		
Notional amount[1]	$290	$540
Weighted average receive rate	4.01%	4.44%
Weighted average pay rate	4.90%	4.81%
Weighted terms	5 years	3 years
Receive floating, pay floating rate swaps		
Notional amount[1]	$ –	$ 175
Average receive rate	–	5.38%
Average pay rate	–	5.30%
Remaining term	–	1 year

[1] Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.

The following foreign currency contracts with a net carrying value of ($144) million (2007 – ($165) million) were in place at March 31, 2008. Such contracts are used to hedge commodity transactions, capital expenditures and foreign dollar principal and interest payments.

(dollar amounts in millions)	2008	2007
Cross-Currency Swaps		
BC Hydro receives foreign currency		
United States dollar – notional amount[1]	US $200	US $200
United States dollar – weighted average exchange rate	1.45	1.45
Remaining term	5 years	6 years

(dollar amounts in millions)	2008	2007
Foreign Currency Forwards		
United States dollar – notional amount[1]	US $767	US $1,049
United States dollar – weighted average exchange rate	1.21	1.26
Weighted remaining term	17 years	13 years

[1] Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.

Total long-term debt, sinking funds and foreign currency contracts are stated in the following table showing the Canadian dollar equivalent of the currency in which they are payable.

(in millions)	2008					2007
	In Canadian Dollars					
	In Currency Units	At the closing exchange rates at the balance sheet date (C$)	Foreign Currency Contracts	Sinking Funds	Net Principal Outstanding Before Hedging	Net Principal Outstanding After Hedging	Net Principal Outstanding After Hedging
Canadian	$ 6,850	$ 6,850	$ –	$ (506)	$ 6,344	$ 7,410	$ 6,791
US	1,050	1,079	221	(89)	1,211	145	298
		$ 7,929	$ 221	$ (595)	$ 7,555	$ 7,555	$ 7,089

Note 11: Financial Instruments

The following table provides a comparison of carrying values for non-derivative financial instruments as at March 31, 2008, and March 31, 2007.

(in millions)	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Held for Trading:				
Cash and cash equivalents	$ 22	$ 22	$ 8	$ 8
Revolving borrowings – Cdn	$ (996)	$ (996)	$ (826)	$ (826)
Revolving borrowings – US	$ –	$ –	$ (10)	$ (10)
Loans and Receivables:				
Accounts receivable	$ 538	$ 538	$ 512	$ 512
Available for Sale:				
Sinking funds – Cdn	$ 506	$ 506	$ 509	$ 512
Sinking funds – US	$ –	$ –	$ 129	$ 127
Held to Maturity:				
Sinking funds – US	$ 89	$ 98	$ 95	$ 97
Other Financial Liabilities:				
Accounts payable and accrued liabilities	$ (1,281)	$ (1,281)	$ (1,267)	$ (1,267)
Long term debt	$ (7,140)	$ (8,329)	$ (6,821)	$ (8,075)

The prior year figures have been presented for comparative purposes only.

For assets classified as held-for-trading, no amount has been recognized in net income for the period relating to changes in fair value. For loans and receivables, the carrying value approximates fair value and amortized cost due to the short term nature of these financial instruments. For available-for-sale financial assets, $4 million has been recorded in other comprehensive income and $3 million was removed from other comprehensive income and reported in net income for the period.

The fair value of derivative instruments, designated or not designated as hedges, was as follows:

	2008		2007	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Designated Hedges				
Foreign currency contracts	$ (148)	$ (148)	$ (165)	$ (167)
Interest rate swaps	73	73	–	8
Commodity derivatives	–	–	–	(13)
Non-designated Hedges				
Foreign currency contracts	$ –	$ –	$ –	$ –
Interest rate swaps	N/A	N/A	–	–
Commodity derivatives	(13)	(13)	17	14
Embedded derivatives	(2)	(2)	–	–

The prior year figures have been presented for comparative purposes only. As at March 31, 2008 there were no non-designated interest rate swaps.

For the year ended March 31, 2008 no net gain or loss was recognized in operations related to the ineffective portion of designated cash flow hedges and fair value hedges. For designated cash flow hedges for the year ended March 31, 2008, a loss of $68 million was recognized in other comprehensive income and $145 million was removed from other comprehensive income and reported in net income, offsetting foreign exchange gains recorded during the period.

For derivatives not designated as hedging instruments, a $10 million loss was recognized in Domestic revenue for the year ended March 31, 2008. Another $2 million loss was recognized in finance charges and a $60 million gain was recorded in trade revenue for the year ended March 31, 2008.

Credit Risk Management

BC Hydro is exposed to credit risk through the sale of electricity and related services to domestic customers and through the purchase of electricity from independent power producers. It is also exposed to credit risk from financial institutions through the management of its interest rate and foreign exchange exposures and from Powerex through its trade activities. Counterparty credit exposure is managed within board approved limits and policies.

Note 12: Deferred Contributions

(dollar amounts in millions)	2008	2007
Contributions in aid of construction	$ 825	$ 747
Contributions arising from the Columbia River Treaty	157	166
	$ 982	$ 913

Note 13: Other Long-Term Liabilities

(dollar amounts in millions)	2008	2007
Environmental liabilities	$ 16	$ 19
Pension and other benefit plan liabilities	(32)	4
First Nations liabilities	317	88
Deferred revenue	353	332
Asset retirement obligations	7	16
	$ 661	$ 459

For asset retirement obligations, BC Hydro estimates the undiscounted amount of cash flows required to settle the asset retirement obligation is approximately $22 million, which will be incurred between 2009 and 2018. A discount rate of 5.9 per cent was used to calculate the carrying value of the asset retirement obligations.

Note 14: Employee Future Benefit Plans

BC Hydro provides a defined benefit statutory pension plan to substantially all employees, as well as supplemental arrangements which provide pension benefits in excess of statutory limits. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. BC Hydro contributes amounts as prescribed by an independent actuary. BC Hydro is responsible for ensuring that the statutory pension plan has sufficient assets to pay the pension benefits upon retirement of employees. The supplemental arrangements are unfunded. The most recent actuarial funding valuation for the statutory pension plan was performed at December 31, 2006. The next valuation for funding purposes will be as of December 31, 2009.

BC Hydro also provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least 10 years of service and qualify to receive pension benefits. Certain benefits, including the short-term continuation of health care and life insurance, are provided to terminated employees or to survivors on the death of an employee. These other post-retirement benefits and post-employment benefits are not funded. Post-employment benefits include the pay-out of benefits that vest or accumulate, such as banked vacation.

Information about the benefit plans, post-retirement benefits and post-employment benefits other than pensions is as follows:

(a) The net expense for BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	2008	2007	2008	2007
Net expense	$ 3	$ 25	$ 24	$ 44

(b) Information about BC Hydro's benefit plans as at March 31, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	2008	2007	2008	2007
Accrued benefit obligation	$ 2,633	$ 2,535	$ 221	$ 335
Fair value of plan assets	2,554	2,500	–	–
Plan deficit	$ (79)	$ (35)	$ (221)	$ (335)
Unamortized net actuarial losses	350	269	12	134
Unamortized past service costs	6	7	–	–
Unamortized transition (asset) liability	(60)	(75)	26	33
Accrued benefit asset (liability)	$ 217	$ 166	$ (183)	$ (168)

The pension plan assets and obligations are measured as at December 31, 2007. The other benefit plan obligations are measured as at March 31, 2008. No valuation allowance was required in fiscal 2008 and fiscal 2007. Only the statutory pension plan was fully funded in fiscal 2008 and fiscal 2007.

(c) The significant assumptions adopted in measuring BC Hydro's accrued benefit obligations are as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	2008	2007	2008	2007
Discount rate				
– benefit cost	5.5%	5.5%	5.5%	5.5%
– accrued benefit obligation	5.5%	5.5%	5.85%	5.5%
Expected long-term rate of return on plan assets	7.2%	7.2%	N/A	N/A
Rate of compensation increase				
– benefit cost	3.8%	3.8%	N/A	N/A
– accrued benefit obligation	3.8%	3.8%	N/A	N/A
Health care cost trend rates				
– weighted average health care cost trend rate	N/A	N/A	6.4%	7.5%
– weighted average ultimate health care cost trend rate	N/A	N/A	3.9%	4.2%
– year ultimate health care cost trend rate will be achieved	N/A	N/A	2013	2012

(d) Other information about BC Hydro's benefit plans is as follows:

(in millions)	2008	2007	2008	2007
Employer contributions	$ 49	$ 143	$ –	$ –
Employee contributions	$ 17	$ 15	$ –	$ –
Benefits paid	$ 121	$ 116	$ 10	$ 10
Settlement payments	$ 9	$ 9	$ –	$ –

The actuarial valuation as at December 31, 2006 that was completed in September 2007, revealed a specific funding requirement of approximately $18 million. BC Hydro made the $18 million payment during the year. This amount represents a funding commitment to fulfill certain requirements specified by the BC Pension Benefits Standards Act related to the unlikely event that BC Hydro ceases to operate, and are designated as contributions to the BC Hydro pension plan. Amounts contributed are in addition to existing funding commitments and do not materially impact operating results in the period in which the payments are made.

The actuarial valuation as at December 31, 2003 that was completed in June 2005, revealed a specific funding requirement of approximately $166 million. BC Hydro subsequently applied for and received an extension to October 2006 from the Financial Institutions Commission of BC ("FICOM") for making the funding payment due in July 2005 and thereafter to allow time to pursue an alternative to the required funding. In October 2006, FICOM was of the opinion that no decision on the proposed use of letters of credit as a mechanism for funding solvency deficiencies in pension plans was likely to be forthcoming in the near term and denied any further extensions. In November 2006, BC Hydro made a $102.2 million contribution to the plan representing all required solvency payments and accrued interest for the period from January 1, 2004 to September 30, 2006. An additional required quarterly solvency payment of $9.1 million was made during the fiscal year. Subsequent specific funding requirements were to be made pursuant to the actuarial valuation as at December 31, 2006.

(e) Asset allocation of the defined benefit statutory pension plan as at the measurement date:

	Target Allocation	2008	2007
Equities	60%	56%	61%
Fixed income investments	30%	31%	28%
Real estate	10%	13%	11%

Plan assets are re-balanced within ranges around target applications. The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocations.

Note 15: Other Comprehensive Income and Accumulated Other Comprehensive Income

Other Comprehensive Income

(in millions)	2008	2007
Other Comprehensive Income		
Unrealized loss on sinking fund balances	$ (4)	$ –
Reclassification to income of loss on sinking funds	3	–
Unrealized loss on derivatives designated as cash flow hedges	(68)	–
Reclassification to income of loss on derivatives designated as cash flow hedges	145	–
Other Comprehensive Income	$ 76	$ –

Comprehensive income consists of net income and other comprehensive income. OCI represents the changes in shareholder's equity during a period arising from transactions and changes in the fair value of available for sale securities and the effective portion of cash flow hedging instruments. Amounts are recorded in OCI until the criteria for recognition in the consolidated statement of operations are met.

Accumulated Other Comprehensive Income

(in millions)	2008	2007
Accumulated other comprehensive income, beginning of period	$ –	–
Transition adjustment upon change in accounting policy (note 2)	(20)	–
Other comprehensive income for the period	76	–
Accumulated Other Comprehensive Income, end of period	$ 56	$ –

Note 16: Commitments and Contingencies

Energy Commitments

BC Hydro (excluding Powerex) has long-term energy purchase contracts to meet a portion of its expected future domestic electricity requirements. The minimum obligations to purchase energy under these contracts have a total value of approximately $21,251 million of which approximately $2,961 million relates to the purchase of natural gas and natural gas transportation contracts, at market prices over 30 years. The remaining commitments are at predetermined prices. Powerex has energy purchase commitments with an estimated minimum payment obligation of $6,416 million extending to 2025 and purchase commitments for energy and capacity services with a value of $185 million extending to 2014.

The total combined payments for the next five years are approximately (in millions): 2009 - $1,861; 2010 - $1,256; 2011 - $1,315; 2012 - $1,365; 2013 - $1,391.

Powerex has energy sales commitments over the next five years with a total estimated value of $2,918 million.

Lease and Service Agreements

BC Hydro has entered into various agreements to lease facilities or assets, or to purchase business support services. The agreements cover periods of up to 10 years, and the aggregate minimum payments are approximately $692 million. Payments for the next five years are approximately (in millions): 2009 – $140; 2010 – $139; 2011 – $138; 2012 – $136; 2013 – $134.

Legal Contingencies

(a) Since 2000, Powerex has been named, along with other energy providers, in a number of lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescissions based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and energy prices were not just and reasonable. These proceedings are at various stages. A summary of significant cases is described below.

A number of lawsuits have been dismissed on the basis that the proceedings should be at the U.S. Federal Energy Regulatory Commission (FERC). One remains outstanding. In *California Department of Water Resources* (CDWR) *vs. Powerex*, CDWR is seeking to have contracts under which it transacted with Powerex in 2001 set aside on the basis of duress and public policy. If it is successful in having the contracts set aside, the case will then go to FERC to determine appropriate remedies.

The U.S. Court of Appeals for the Ninth Circuit has remanded back to FERC the *Lockyer* case with instructions that FERC should reconsider its remedial powers thereby opening up the possibility that refunds will have to be paid for energy sales during the period May to October 2000. FERC has issued an order that an evidentiary hearing will be held in *Lockyer*. In other cases, the Ninth Circuit has issued conflicting decisions on whether refunds should be paid relating to bilateral sales. It rejected FERC's categorical exclusion of bilateral purchases and remanded one case back to FERC opening up the possibility that Powerex would have to pay refunds for energy sales during the period January to June 2001. Powerex is seeking rehearing of that decision. As it relates to the period from October to December 2000, FERC has already decided that refunds will have to be paid but the precise amount has not been determined.

At March 31, 2008, Powerex was owed US $268 million (CDN $275 million) by the markets operated by the California Power Exchange (Cal Px) and the California Independent System Operator (CISO) related to Powerex' electricity trade activities in California during the period covered by the lawsuits. As a result of defaults by a number of California utilities, the Cal Px and CISO were unable to pay these amounts to Powerex. It is expected those receivables will be offset against any refunds that Powerex is required to pay.

FERC has approved a settlement agreement between FERC staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming practices or concerted partnership practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier to the California market throughout the energy crisis. FERC has not issued a final order in that settlement.

BC Hydro was also joined as a defendant in the California Consumer Class Action lawsuit through cross-claims by other defendants. In response to an application by BC Hydro to be dismissed from the lawsuit, a U.S. Federal District Court judge ruled that BC Hydro is immune from these claims in the United States by virtue of the Foreign Sovereign Immunities Act (FSIA). The Ninth Circuit upheld this finding. The court also upheld the District Court's finding that Powerex does not enjoy foreign sovereign entity status and therefore remains a party to the lawsuit, which was ordered to be remanded back to California State Court. Powerex appealed that decision to the Supreme Court of the United States which heard the case on April 16, 2007. On June 18, 2007, the Supreme Court determined it did not have jurisdiction and therefore did not grant Powerex the FSIA order requested. However, the Supreme Court also determined that the Ninth Circuit did not have jurisdiction and therefore that court's decision that Powerex was not an instrumentality of a foreign sovereign, will be set aside.

Due to the ongoing nature of the regulatory and legal proceedings against Powerex, management cannot predict the outcomes of the claims against Powerex. Powerex has recorded provisions for uncollectible amounts and legal costs associated with the California energy crisis. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that are ultimately collected or paid may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the process.

(b) Facilities and Right of Ways: BC Hydro is subject to existing and pending legal claims relating to alleged infringement and damages in the operation and use of facilities owned by BC Hydro. These claims may be resolved unfavourably with respect to BC Hydro and may have a significant adverse effect on BC Hydro's financial position. For existing claims in respect of which settlement negotiations have advanced to he extent that potential settlement amounts can reasonably be predicted, management has recorded a provision for the potential costs of those settlements. For pending claims, management believes that any loss exposure that may ultimately be incurred may differ materially from management's current estimates. Management has not disclosed the ranges of expected outcomes due to the potentially adverse effect on the negotiation process for these pending claims.

(c) Due to the size, complexity and nature of BC Hydro's operations, various other legal matters are pending. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that any settlements related to these matters will not have a material effect on BC Hydro's consolidated financial position or results of operations.

Note 17: Geographic Information

Revenues, based on point of delivery, are as follows:

(in millions)	2008	2007
British Columbia	$ 2,944	$ 2,786
Canada (excluding British Columbia)	803	511
United States	1,108	895
	$ 4,855	$ 4,192

Substantially all of BC Hydro's assets are located in the Province of British Columbia. Energy sales outside of British Columbia are carried out by Powerex, a wholly owned subsidiary of BC Hydro.

Note 18: Related Party Transactions

As Crown corporations of the Province, BC Hydro, BCTC and the Province are considered related parties. As a regulatory agency of the Province, the Commission would also be considered a related party of BC Hydro as both organizations are subject to common significant influence by the Province. All transactions between BC Hydro and its related parties are considered to possess commercial substance and are consequently recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The related party transactions are summarized below:

(in millions)	2008	2007
Province of BC		
Accounts receivable	$ 63	$ 76
Accounts payable	354	383
Water rental fees	318	259
Cost of energy sales	245	223
Taxes	99	98
Finance charges	463	453
Payment to the Province	288	331
BCTC		
Accounts receivable	58	62
Accounts payable	47	45
Cost of energy sales	59	60
Operating costs	87	87
Other	35	30
Columbia Power Corporation		
Accounts payable	6	–
Cost of energy sales	45	33

BC Hydro's debt is either held or guaranteed by the Province (see Note 10). Under an agreement with the Province, BC Hydro indemnifies the Province for any credit losses incurred by the Province related to interest rate and foreign currency contracts entered into by the Province on BC Hydro's behalf. At March 31, 2008, the aggregate exposure under this indemnity totaled approximately $158 million (2007 - $177 million). BC Hydro has not experienced any losses to date under this indemnity.

Note 19: Subsequent Events

On May 1, 2008 the Budget Measures Implementation Act, 2008, received Royal Assent. As a result, the sections of the Act, Sections 33 and 34, repealing the borrowing limitation provisions of the Hydro and Power Authority Act described in Note 10, became effective as of that date.

Financial Statistics

for the years ended or as at March 31 (millions of dollars)	2008[1]	2007[1]	2006[1]	2005[1]	2004
Revenues	$ 4,855	$ 4,192	$ 4,311	$ 3,725	$ 3,424
Expenses					
Energy costs	2,702	2,117	2,488	1,959	1,580
Operating costs[2]	942	716	805	717	621
Amortization	368	378	411	410	526
Taxes	153	149	147	143	147
Finance charges	463	453	435	318	452
Payment from Alcan Inc.	–	–	–	(137)	–
Restructuring costs	–	–	–	–	8
	4,628	3,813	4,286	3,410	3,334
Income Before Regulatory Account Transfers	227	379	25	315	90
Regulatory Transfers	142	28	241	87	–
Rate Stabilization Account	–	–	–	–	21
Net Income	$ 369	$ 407	$ 266	$ 402	$ 111
Property, Plant and Equipment & Intangible Assets					
At cost	$ 18,140	$ 17,161	$ 16,699	$ 16,197	$ 15,841
Less: Accumulated depreciation	7,038	6,735	6,676	6,264	5,941
Net Book Value	$ 11,102	$ 10,426	$ 10,023	$ 9,933	$ 9,900
Property, Plant & Equipment and Intangible Asset Expenditures					
Sustaining	$ 553	$ 428	$ 363	$ 331	$ 375
Expansion	519	379	247	197	199
Total property, plant & equipment and intangible asset expenditures[3]	1,072	807	610	528	574
Less: Contributions in aid of construction	100	85	68	66	56
Net Property, Plant & Equipment and Intangible Asset Expenditures	$ 973	$ 722	$ 542	$ 462	$ 518
Net Long-Term Debt[4]	$ 7,519	$ 6,916	$ 6,627	$ 6,583	$ 6,853

[1] The results reflect the impact of Accounting Guideline 19, Disclosure by Entities Subject to Rate Regulation, regarding the recognition and measurement of assets and liabilites subject to rate regulation. Prior years have not been restated.

[2] Maintenance, operations and administrative costs.

[3] Total property, plant and equipment and intangible asset expenditures incude non-cash items.

[4] Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.

Key Financial and Operating Comparatives

Financial Comparatives

millions of dollars unless otherwise stated	2008[1]	2007[1]	2006[1]	2005[1]	2004
Revenues	$ 4,855	$ 4,192	$ 4,311	$ 3,725	$ 3,424
Net income	$369	$407	$266	$402	$111
Property, Plant & Equipment and Intangibles	$11,102	$ 10,422	$ 10,023	$ 9,933	$ 9,900
Net long-term debt[2]	$ 7,519	$ 6,916	$ 6,627	$ 6,583	$ 6,853
Rate Stabilization Account	$ –	$ –	$ –	$ –	21
Retained earnings	$ 1,921	$ 1,783	$ 1,707	$ 1,688	$ 1,876
Property, Plant & Equipment and Intangible expenditures	$ 1,072	$ 807	$ 610	$ 528	$ 574
Debt to equity[3]	70:30	70:30	70:30	70:30	70:30
Return on equity (%)	11.33	13.44	9.26	14.24	3.74
Interest coverage	1.49	1.84	1.06	1.56	1.22

Operating Comparatives

Number of customers	1,767,194	1,736,987	1,704,892	1,675,258	1,650,655
Generating capacity (MW)					
Hydroelectric	10,237	10,232	10,219	10,218	10,207
Thermal	1,043	1,091	1,094	1,093	1,093
Peak one-hour demand (MW)	9,548	10,113	9,317	9,437	9,619
Average annual kW·h use per residential customer	11,290	10,906	10,846	10,722	10,761
Average number of customers per employee	338	373	399	378	372
Domestic sales (GW·h)	53,300	52,911	52,440	51,205	50,151
Trade sales (GW·h)	51,815	41,336	36,547	32,346	28,373
Total electricity sold per employee (GW·h)	17.66	18.70	19.45	18.41	17.82

[1] The results reflect the impact of Accounting Guideline 19, Disclosure by Entities Subject to Rate Regulation, regarding the recognition and measurement of assets and liabilites subject to rate regulation. Prior years have not been restated.
[2] Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.
[3] Based on equity as defined for regulatory purposes.

Operating Statistics

for the years ended or as at March 31	2008	2007	2006	2005	2004
Generating Capacity (megawatts)					
Hydroelectric[1]	10,237	10,232	10,219	10,218	10,207
Thermal	1,043	1,091	1,094	1,093	1,093
Total	11,280	11,323	11,313	11,311	11,300
Peak One-Hour Demand Integrated System (megawatts)	9,548	10,113	9,317	9,437	9,619
Customers					
Residential	1,568,508	1,540,176	1,511,435	1,484,339	1,462,079
Light industrial and commercial	194,861	193,070	189,764	187,313	185,065
Large industrial	160	146	146	138	136
Other	3,408	3,349	3,326	3,265	3,202
Trade	257	246	221	203	173
Total	1,767,194	1,736,987	1,704,892	1,675,258	1,650,655
Electricity Sold (gigawatt-hours)					
Residential	17,553	16,651	16,261	15,814	15,646
Light industrial and commercial	18,406	18,268	17,913	17,459	17,175
Large industrial	15,380	15,989	16,428	16,177	15,505
Other	1,961	2,003	1,838	1,755	1,825
Domestic	53,300	52,911	52,440	51,205	50,151
Trade	51,815	41,336	36,547	32,346	28,373
Total	105,115	94,247	88,987	83,551	78,524
Domestic Change Over Previous Year (%)	0.7	0.9	2.4	2.1	3.0

	2008	2007	2006	2005	2004
Revenues (millions)					
Residential	$ 1,171	$ 1,070	$ 1,046	$ 1,016	$ 960
Light industrial and commercial	1,054	1,025	989	967	912
Large industrial	536	556	584	573	525
Other energy sales	127	99	92	88	89
Domestic electric	2,888	2,750	2,711	2,644	2,486
Miscellaneous	56	36	16	60	67
Domestic	2,944	2,786	2,727	2,704	2,553
Trade	1,911	1,406	1,584	1,021	871
Total	$ 4,855	$ 4,192	$ 4,311	$ 3,725	$ 3,424

Operating Statistics (continued)

for the years ended or as at March 31	2008	2007	2006	2005	2004
Average Revenue (per kilowatt-hour)					
Residential	6.7¢	6.4¢	6.4¢	6.4¢	6.1¢
Light industrial and commercial	5.7	5.6	5.5	5.5	5.3
Large industrial	3.5	3.5	3.6	3.5	3.4
Other	6.5	4.9	5.0	5.0	4.9
Trade[2]	6.5	6.5	7.8	9.7	6.8
Average Annual Kilowatt-Hour Use Per Residential Customer	11,290	10,906	10,846	10,722	10,761
Lines In Service					
Distribution (kilometres)[3]	56,297	55,705	55,224	55,254	54,617
Transmission (circuit kilometres)	18,531	18,336	18,234	18,286	18,300
Number of Employees[4]	5,185	4,546	4,203	4,396	4,406

1 Maximum sustained generating capacity.
2 The method used to calculate the trade revenue per kilowatt hour is based on gross trade revenues.
3 The method used to track the distance of the 3 phase underground power lines was changed in Fiscal 2004.
4 Includes full time and part-time employees of BC Hydro and its subsidiaries. For the year ended 2004 this also includes the employees of British Columbia Transmission Corporation. At April 1, 2003, approximately 1,600 employees were transferred to Accenture Business Services of British Columbia.

Total Requirements For Electricity And Sources Of Supply

for the years ended March 31	2008			2007			2006		2005	
	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Gigawatt-Hours	%	Gigawatt-Hours	%
Requirements										
Domestic	11,280	53,300	55.3	11,323	52,911	57.8	52,440	59.8	51,205	59.8
Electricity trade		37,450	38.8		33,372	36.4	29,906	34.1	29,706	34.7
		90,750	94.1		86,283	94.2	82,346	93.9	80,911	94.5
Line loss and system use		5,676	5.9		5,329	5.8	5,356	6.1	4,660	5.5
		96,426	100.0		91,612	100.0	87,702	100.0	85,571	100.0
Sources Of Supply										
Hydroelectric generation										
Gordon M. Shrum	2,730	16,477	17.1	2,730	12,470	13.6	14,628	16.7	11,738	13.7
Revelstoke	1,980	9,496	9.8	1,980	7,740	8.4	7,915	9.0	7,283	8.5
Mica	1,805	8,562	8.9	1,805	7,036	7.7	7,006	8.0	5,993	7.0
Kootenay Canal	583	3,083	3.2	580	3,286	3.6	3,310	3.8	3,339	3.9
Peace Canyon	694	4,054	4.2	694	3,054	3.3	3,580	4.1	2,981	3.5
Seven Mile	805	2,880	3.0	805	3,573	3.9	3,082	3.5	3,039	3.6
Bridge River	478	2,793	2.9	476	2,609	2.8	2,736	3.1	2,597	3.0
Other	1,162	4,795	5.0	1,162	4,708	5.1	4,603	5.2	4,631	5.4
	10,237	52,140	54.1	10,232	44,476	48.5	46,850	53.4	41,601	48.6
Thermal generation										
Burrard	950	260	0.3	950	727	0.8	39	0.0	456	0.5
Other	139	353	0.4	141	333	0.4	336	0.4	325	0.4
Purchases under long-term commitments		11,878	12.3		10,306	11.2	11,275	12.9	10,992	12.9
Purchases under short-term commitments		32,281	33.5		35,360	38.6	29,831	34.0	32,637	38.1
Exchange net		(485)	(0.5)		410	0.4	(629)	(0.7)	(440)	(0.5)
	11,328	96,426	100.0	11,323	91,612	100.0	87,702	100.0	85,571	100

Appendices

Short-Term Priorities

SAFETY

Description

To provide the safest work environment compared with the best performers in any industry, where none of our employees will experience a serious safety injury.

Strategy

Identify hazards and eliminate them where possible.

Manage and control hazards through the use of barriers, procedures and other measures when hazards cannot be eliminated, to minimize the risks to our employees.

RELIABILITY (CUSTOMER AND SUPPLY)

Description

To provide electricity self-sufficiency (energy and capacity) in B.C. for meeting all domestic needs, and to have the best-in-class reliability by customer segment.

Strategy

Build awareness and understanding – within BC Hydro and in the community – of what our customers need and expect, and the importance of notifying our customers quickly about outages and safety risks, as well as when their power might be restored.

Develop the Storm Resiliency Program to strengthen those circuits that are most susceptible to storms.

Assess and invest in circuits with poor reliability, where either the frequency or duration of outages exceeds a reasonable minimum level of performance to reduce the number of customers experiencing multiple outages.

Using life-cycle analysis to assess the condition and capability of assets (such as wires, poles and cables) and identify opportunities to deliver more reliable service.

Deliver the Smart Metering Infrastructure Project.

Ensure generation Heritage Assets maintain reliability targets.

Manage our peak load supply reliability by minimizing the amount of unit outages during the winter peak period.

Secure firm market energy (electricity and gas) for domestic peaks.

Expand our load curtailment programs with customers as contingencies for winter capacity supply.

Return the sixth unit at the Burrard thermal generating station to service in 2008.

Advance various power acquisition processes and initiatives to ensure incremental supply is in place to meet future needs.

CLIMATE CHANGE, ENERGY CONSERVATION AND EFFICIENCY

Description

To develop and foster an energy conservation and efficiency culture in B.C. that utilizes technology to lead customers to choose a dramatic and permanent reduction in the use of electricity.

Strategy

Develop and implement new electricity rate structures.

Support the development and adoption of new building codes and standards.

Implement community strategies such as the Community Challenge, Turn it Off Tour and Power Smart Champions programs.

Develop key partnerships and engage stakeholders to begin to shift public behaviour.

Stimulate innovation through the advancement of new energy efficiency technologies and practices.

Build the capability of the marketplace to respond to increased demand for energy efficient products and services.

Increase the existing portfolio of successful Power Smart programs.

FINANCIAL TARGETS

Description

To maintain the existing position of having costs among the lowest in North America and to deliver 100 per cent of forecast net income on an annual basis.

Strategy

BC Hydro filed a Revenue Requirements Application with the BCUC in February 2008. BC Hydro is seeking a cumulative general rate increase of 15.3 per cent over the two-year period fiscal 2009 to fiscal 2010 in order to:

- acquire additional clean and renewable energy as well as higher cost market purchases to meet increasing demand;
- upgrade and expand our infrastructure to ensure the long-term security of our electricity supply;
- meet our obligations for First Nations consultation and implementing agreements;
- continue to maintain and improve BC Hydro's personnel and infrastructure safety;
- prepare for a shrinking labour pool by investing in hiring and retaining highly qualified employees.

Over the next three years, we will also work to:

- manage the short-term cost of energy by optimizing decisions of "buy versus generate;"
- optimize the long-term cost of energy by implementing the 2006 Integrated Electricity Plan and the Long-Term Acquisition Plan, which include conducting future competitive market calls for energy from IPPs in order to get the best price for energy;

FINANCIAL TARGETS (CONTINUED)

- enhance prioritization, execution and reporting of capital spending across BC Hydro while upgrading and maintaining our Heritage Assets;
- implement productivity projects focusing on rationalizing IT systems, procurement and work management processes;
- implement a new 20-year demand side management plan.

Over the long-term, these strategies are aimed at sustaining a cost advantage by:

- making good business decisions that enhance productivity;
- delivering an effective capital investment program;
- procuring new supply at a low total cost;
- optimizing BC Hydro's balance sheet and cost of capital.

CUSTOMER SATISFACTION

Description

To lead by offering extraordinary value and service.

Strategy

Improve service in high customer contact areas by improving outage communication, contact centre interactions, BC Hydro website content and functionality, customer issues resolution and claims processes and customer understanding of electricity and the services BC Hydro provides.

Build our understanding of customers through research, sophisticated segmentation and feedback mechanisms, best practice reviews and benchmarking.

Promote Power Smart programs to assist customers in reducing their energy costs.

Ensure employees understand the customer experience and how their actions create optimal customer value and satisfaction.

Develop a Customer Experience Framework.

Closely manage change with our customers through clear, targeted communications, well-planned implementation, and excellence in our customer service operations.

PEOPLE

Description

To be the top employer for generations and to use exceptional teamwork to engage all employees.

Strategy

Manage need by continuing to improve organization-wide workforce planning and forecasting capability as well as pursue job redesign, skills upgrading and retraining to support the introduction of new technology.

Expand talent by deploying our targeted outreach sourcing strategy and Aboriginal Education and Employment strategy to attract a more diverse workforce and by increasing our focus on international recruiting for hard to fill positions.

Attract talent by hiring early replacements for critical roles to allow for knowledge transfer as well as continuing to leverage our Employee Referral Program.

Grow talent by continuing to strengthen our leadership team through a focus on leadership coaching and development, succession planning and career pathing and by expanding our apprentice and trainee programs.

Retain talent by delivering consistent and timely employee on-boarding and orientation programs, conducting a review of our Total Rewards programs (which includes base pay, variable pay, benefits, pension and other related incentive programs) and further involving our people in "once in a lifetime" opportunities and challenges, including addressing the energy gap and supporting the 2010 Olympic and Paralympic Winter Games.

Long-Term Goals

BC Hydro has established 15 long-term goals to guide our business over the next 20 years and ensure we continue to provide reliable power, at low cost, for generations.

Long-Term Goal	Explanation
Reliability (Supply)	To provide electricity self-sufficiency (energy and capacity)
Reliability (Customer)	To have the best-in-class reliability by customer segment
Customer Satisfaction	To lead other companies in offering extraordinary value and service
Remote Community Electrification	To provide appropriate electric service to all remote communities on an equitable basis
Workplace	To be the top employer for generations
Teamwork	To use exceptional teamwork to engage all employees in the achievement of BC Hydro's purpose and long-term goals
Safety	To provide the safest work environment compared with the best performers in any industry, with none of our employees experiencing a serious safety injury
First Nations	To improve relationships built on mutual respect and that appropriately reflect the interests of First Nations
Suppliers	To ensure 100 per cent of suppliers have demonstrated values congruent with those of BC Hydro
Environmental Impact	To have no net environmental impact by 2024
Electricity Conservation and Efficiency	To develop and foster a conservation culture in B.C. that leads to customers to choose a dramatic and permanent reduction in electricity intensity
Financial Targets	To maintain existing position of having costs among the lowest in North America and to deliver 100 per cent forecast net income on an annual basis
Western Opportunities	To profitably increase western market share based on access to assets in B.C. and the western system and increased trading activity
Innovation and Technology	To be an industry leader in innovation use of technology, directly supporting and advancing BC Hydro's long-term goals
Stakeholder Engagement	To be the most respected company in B.C.

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SUBSIDIARIES

Powerex Corp

Powerex Corp., BC Hydro's wholly-owned energy marketing subsidiary, is a leading marketer of wholesale energy products and services in western Canada and the western United States, and a growing niche player in other markets across North America. Powerex customers include utilities, power pools, municipalities, large industrials and energy marketers. Its energy marketing and trade activities help optimize BC Hydro's electric system resources and provides significant economic benefits to the people of British Columbia.

In recent years, Powerex has increasingly been purchasing electricity from outside the BC Hydro system to support BC Hydro's domestic needs and to meet its own trade commitments. These purchases are made from entities in British Columbia, western Canada and the United States. Powerex also markets, on behalf of the government, the Canadian Entitlement to the Downstream Benefits of the Columbia River Treaty.

Powertech Labs Inc.

Powertech Labs Inc. operates on a commercial basis, providing consulting, analysis, testing and certification services and analytic tools and products to the electric and natural gas industries, their customers and suppliers worldwide. Powertech is a leader in high pressure gas storage and fuelling technology, alternative energy and analytic software for the design and secure operation of integrated electric power systems.

Powertech provides a centre for the innovative use of a wide array of technology including high voltage, high power, high current, mechanical, materials, coatings, chemical and civil technologies. What sets Powertech apart is the ability to combine expertise from different disciplines to provide optimum solutions for complex problems. Powertech is registered for its Environmental (ISO 14001:2004) and Quality (ISO 9001:2000) Management Systems.

Other Subsidiaries

BC Hydro has created a number of other subsidiaries to help us manage risk in developing projects and/or contracting with third parties. The boards and management of these subsidiaries are made up of BC Hydro employees, who perform these duties without incremental remuneration.

TRIPLE BOTTOM LINE REPORTING AND THE GLOBAL REPORTING INITIATIVE

BC Hydro prepares its Annual Report in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. This voluntary de-facto standard is used by more than 1,500 organizations worldwide to report on performance across all three dimensions of sustainability – the financial, environmental, and social (customers, employees and community) – of their activities, products, and services. Reporters using the guidelines present reporting principles and specific content indicators to guide the preparation of organization-level sustainability reports.

Although now an independent body, the GRI remains an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with United Nations Global Compact. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organizations from around the world. In addition to being an Organizational Stakeholder of the Global Reporting Initiative, BC Hydro was involved with the development of the newly created global Electric Utility Sector Supplement. The supplement contain commentary on developing indicators based on the GRI list of performance measures, items for inclusion in MD&A sections of the report, and recommended performance measures in addition to those listed in the new G3 GRI Sustainability Reporting Guidelines.

For the fiscal 2008 reporting period, BC Hydro has started the transition from the previously used 2002 GRI Sustainability Reporting Guidelines to the new G3 framework. BC Hydro's suite of sustainability performance measures is a combination of measures developed to track our achievement towards meeting our short term priorities and long-term goals as outlined in our annual Service Plan, measures derived from financial and operational statistics, and measures developed specifically to meet GRI reporting requirements.

Alignment with Shareholder's Letter of Expectations

Shareholder Direction	BC Hydro Action
Continually review and improve its organizational structure to enhance accountability, cost effectiveness and performance.	On May 31, 2006, BC Hydro announced changes to our business structure that included the consolidation of some business lines and streamlined the executive team. Our generation and distribution functions remain separate as stipulated in the 2002 provincial Energy Plan. We implemented these changes to better align BC Hydro's business model to deliver on our five short-term priorities and to promote improved coordination between business functions. The new structure consists of operational business groups, a corporate function and two primary operating subsidiaries, Powerex and Powertech.
Aggressively pursue all actions necessary to implement the objectives of British Columbia's 2007 Energy Plan.	On June 11, 2008, BC Hydro launched its Clean Power Call to encourage the development of clean or renewable energy alternatives. The Clean Power Call Request for Proposals (RFP) will target up to 5,000 gigawatt hours of clean or renewable energy per year from larger projects using proven technologies, such as hydro, wind, solar, and geothermal energy, among others. The structured RFP will be a competitive process involving independent power producers across the province. On April 11, 2008, BC Hydro launched its Standing Offer Program to help ensure the province can meet its growing electricity needs with power from clean or renewable sources. The program offers a standard contract with set prices and a streamlined administrative process to give smaller scale projects the opportunity to contribute to B.C.'s supply of clean electricity. Specifically, the Standing Offer Program targets projects that generate up to 10 megawatts of power. On February 26, 2008, BC Hydro filed with the British Columbia Utilities Commission (BCUC) a Residential Inclining Block rate application, which is a two-step rate structure designed to encourage residential customers to conserve electricity. On February 6, 2008, BC Hydro released the first phase of its two-phase Bioenergy Call for Power with a request for proposals that will utilize forest-based biomass, including sawmill residues, logging debris and other residual wood for power production. BC Hydro is also undertaking a number of other initiatives to implement the objectives of the Energy Plan.
Proactively provide public information and education regarding the supply of and the demand for electricity and options for meeting future needs in consultation with Government.	On June 13, 2008, BC Hydro filed its 10-year action plan to meet the growing demand for electricity in British Columbia with a focus on conservation and clean power sources. BC Hydro's 2008 Long-Term Acquisition Plan (2008 LTAP), which has been filed with the British Columbia Utilities Commission (BCUC), includes details on how BC Hydro plans to save more than 10,000 GWh per year (enough to power one million homes) through conservation and energy efficiency by 2020. On April 15, 2008, BC Hydro's Electricity Conservation and Efficiency (EC&E) Advisory Committee released its first annual report – featuring innovative recommendations that will encourage customers to make a dramatic and permanent reduction in their electricity use. BC Hydro launched the Electricity Conservation & Efficiency Advisory Committee in September of 2006 to provide input and advice on BC Hydro's conservation and efficiency initiatives, as well as to generate new ideas to inspire a conservation culture in B.C. On December 4, 2007, BC Hydro commenced a pre-consultation process to seek input from local, regional, and provincial communities and stakeholders on the potential for an additional hydroelectric facility on the Peace River – Site C. BC Hydro has completed its Stage 1 evaluation of Site C, as part of a five stage process, and is currently in the second stage of project review – project definition and comprehensive consultation. Stage 2 will begin with BC Hydro seeking input on how people want to be consulted about the project and on the topics they wish to discuss. In a parallel pre-consultation process, BC Hydro will also seek advice from First Nations about how they wish to be consulted and which issues and concerns might need to be addressed through the evaluation of Site C. No decision to build Site C has been made, and a decision on whether or not to proceed is years away.
Through its subsidiary Powerex, actively pursue extra-provincial energy trading markets to explore and identify opportunities to facilitate access for independent power producers to western North American markets.	Powerex continues its energy marketing and trade activities, which help optimize BC Hydro's electric system resources and provide significant economic benefits to British Columbians.

LIBRARY AND ARCHIVES CANADA CATALOGUING IN PUBLICATION DATA

BC Hydro

Annual report. - 1st (1962/63) - Annual.
Title from cover.
Merger of: British Columbia Power Commission.
Annual report of the British Columbia Power Commission and British Columbia Electric Company. Annual report.
Continued in part by: BC Hydro. Corporate review.

Absorbed: Triple Bottom line report. ISSN 1481-3130.
Report year ends Mar. 31.

ISSN 0521-0577 = Annual report - British Columbia Hydro and Power Authority
1. BC Hydro - Periodicals.
2. Electric utilities - British Columbia - Periodicals.
3. Public utilities - British Columbia - Periodicals. 1. Title.

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For information about BC Hydro's Annual Report or sustainability at BC Hydro, please email annual.report@bchydro.com or visit BC Hydro's website at www.bchydro.com.

For more information about BC Hydro's Global Reporting Initiative and results, please visit our website at www.bchydro.com/info/reports/reports11858.html